S. HRG. 102-350, PT. 1

THE BCCI AFFAIR

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND INTERNATIONAL OPERATIONS

OF THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

AUGUST 1, 2 AND 8, 1991

PART 1

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE

45-702 ⇆ WASHINGTON : 1992

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-037256-9

COMMITTEE ON FOREIGN RELATIONS

CLAIBORNE PELL, Rhode Island, *Chairman*

JOSEPH R. BIDEN, JR., Delaware
PAUL S. SARBANES, Maryland
ALAN CRANSTON, California
CHRISTOPHER J. DODD, Connecticut
JOHN F. KERRY, Massachusetts
PAUL SIMON, Illinois
TERRY SANFORD, North Carolina
DANIEL P. MOYNIHAN, New York
CHARLES S. ROBB, Virginia
HARRIS WOFFORD, Pennsylvania

JESSE HELMS, North Carolina
RICHARD G. LUGAR, Indiana
NANCY L. KASSEBAUM, Kansas
LARRY PRESSLER, South Dakota
FRANK H. MURKOWSKI, Alaska
MITCH McCONNELL, Kentucky
HANK BROWN, Colorado
JAMES M. JEFFORDS, Vermont

GERYLD B. CHRISTIANSON, *Staff Director*
JAMES P. LUCIER, *Minority Staff Director*

SUBCOMMITTEE ON TERRORISM, NARCOTICS AND INTERNATIONAL OPERATIONS

JOHN F. KERRY, Massachusetts, *Chairman*

PAUL SIMON, Illinois
DANIEL P. MOYNIHAN, New York
CLAIBORNE PELL, Rhode Island

HANK BROWN, Colorado
MITCH McCONNELL, Kentucky
JAMES M. JEFFORDS, Vermont

CONTENTS

AUGUST 1, 1991

MORNING SESSION

	Page
Blum, Jack, Lobel, Novins, Lamont & Flug	15
Prepared statement	38
Von Raab, William, William H. Bode Associates	11

AFTERNOON SESSION

Borg, Parker W., prepared statement	103
Burleigh, A. Peter, prepared statement	106
Kreczko, Alan J., prepared statement	105
Mattingly, Virgil, General Counsel, Board of Governors, Federal Reserve System	79
Prepared statements	85

AUGUST 2, 1991

Del Castillo, Jorge, Member, Peruvian House of Delegates	213
Llaque, Ricardo, Deputy Director of Exchange Operations, Federal Reserve Bank of Peru	164
Olivera, Fernando, Member, Peruvian House of Deputies	194
Rodriguez, Jesus, Member, Chamber of Deputies, Argentina	236

AUGUST 8, 1991

MORNING AND AFTERNOON SESSIONS

Rahman, Masihur, Former Chief Financial Officer, BCCI, London	254

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

THURSDAY, AUGUST 1, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:01 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Helms, Cranston, Brown, and Jeffords.

Senator KERRY. This hearing of the Senate Foreign Relations Subcommittee on Narcotics, Terrorism, and International Operations will come to order.

I would like to begin by thanking Senator Pell, the chairman of the full Foreign Relations Committee for permitting this committee to proceed forward, and not only with this hearing, but with this investigation over the long period of the last few years. I would also like to thank him for the consistent support that he has provided me at moments when I know he felt very strongly that this was not the normal role for this committee.

What we want to try to do today is begin to tell the story. And I think we are going to begin at the beginning in order to lay out factually precisely what brought us to this point, what it is we know in broad terms. There is a great deal more to be said by a lot of different parties in this. I caution people to recognize that this is only a beginning, that there is a lot of testimony yet to come before the entire Congress. There are other committees that will be looking at this issue. There are other entities that will be looking at this issue. And it would be a mistake to draw final conclusions of many kinds until all of that testimony has been drawn.

The nature of a congressional hearing process is such that you cannot do it all at once. You cannot even do it in continuum. There is much that is not told in 1 day that does need elucidation in another day.

We are going to start with the big picture and with a few small pictures that are snapshots inside of this extraordinary banking scandal.

This committee will be hearing testimony in early September from Mr. Clifford and Mr. Altman. I was in touch with their attorney over the course of the last days and we have locked in dates in September, and we will announce those dates formally in the near

future. They will testify voluntarily and without any subpoenas or compulsion. They want to testify and we look forward to hearing their testimony.

In May of this year before the Senate Banking Committee when we held a hearing on BCCI, I shared my belief that I thought this would turn out to be the biggest financial scandal that we had ever seen. The disclosures of recent weeks have suggested that I might even have understated the case.

This is not just another story, of big-time, big-money con artists. It is a story of international lawlessness, of extraordinary greed which is becoming too much the centerpiece of recent history. It is a story of the big guys getting away with things that the little guy could never hope to escape responsibility for, and the little guy winding up getting screwed in the process. It is a story of the abuse of power and the abuse of system. It is a big white-collar crime that facilitates and encourages the two-bit street crime that kills.

BCCI is the most prominent and dramatic symbol of a way of doing business that challenges and diminishes people's faith in Government, our Government and governments around the world. Average people really do not believe, I think, that government is on their side these days. They do not believe that we can or that we want to protect them as we are supposed to do, and certainly that we do not protect them from banks that become the private playthings of the very rich and sometimes the crooked. They do not believe that large and powerful corporations or powerful people play by the same rules or are required to play by the same rules as everybody else. And they are convinced that if you can afford to hire the best lawyers and the best accountants, you can get away with almost anything in the world.

There may be those who say that what BCCI did is somehow a victimless crime. I do not believe that. I do not think it is true. There are a lot of victims. The first is our system in which we have invested so much. And it is a victim because it tears apart people's belief in the system and the ability of the system to work. But it is a lot more than that. How is it after all, that drugs get into the veins of our kids in our streets? Banks have become the facilitators of drug trafficking. Banks are part of the conspiracy where they have engaged in this. Banks that do not live by the rules adopted at the Basel Convention of knowing their customer have been part of the process of putting those drugs into our communities.

The same is true of guns that get into the hands of thugs in our streets, or bombs into the luggage compartments of our airplanes. Banks are often the depository of the secret funds and the secrecy laws that protect that money is often purposefully there to protect the nefarious transactions which surround those kinds of criminal enterprises.

Manhattan district attorney, Bob Morgenthau, who has done an extraordinary job in the course of this case, who is probably the dean of all district attorneys in America, and a man of extraordinary integrity and capacity, he talked about this very thing the other day in announcing the indictments in the BCCI case. He sends thousands of drug users and common criminals to jail every year. But as he pointed out, the people that make the real money, the people who get filthy rich preying on the weaknesses and temp-

tations of others hardly ever get caught. So when corporations like BCCI get away with either corrupting governments and regulatory agents, or by simply evading them while serving as the bank of choice for criminals, drug traffickers, illicit arms dealers, despots, con men, and terrorists around the world, we all lose.

And if and when we turn over the rocks that have hidden the truth about BCCI and its activities for the past decade or more, when we bring to light of day their activities, I think that we have an opportunity to win. It is that simple. I also think, maybe this is a little naive, but I do believe it, that if you can do this and send a signal to people that you can make the system respond, that by doing so you can eat away at a little bit of the cynicism and the anger and the sense of hopelessness that an awful lot of people feel, and which is an attitude that truly corrodes American politics today.

What is amazing, and I guess, frustrating to a lot of us, is that BCCI's day of reckoning was so long delayed. Red flags were present almost from the beginning. In England, the Bank of England in the late 1970's refused to grant BCCI a full-service banking license because BCCI could not produce the financial records to explain its remarkable growth in the United Kingdom. In this country, the New York Superintendent for Banks, and the SEC, to their credit, each blocked an attempt by BCCI to acquire a banking institution in this country. And the Federal Reserve, which had serious reservations about BCCI and the Middle Eastern shareholders who were attempting to take over Financial General Bankshares took the unusual step of holding a public hearing 10 years ago. And that raised some of the issues that we are now reexploring and examining today.

Notwithstanding those efforts, BCCI found a way not only to survive, but to flourish. It found a way to escape real scrutiny by gaining the trust of influential people and using them to maintain a cloak of legitimacy. We are inevitably left with the question of whether the mere presence of these influential people was sufficient to keep lawyers and accountants and regulators from doing their jobs for so long.

Three actions just this past month demonstrate the enormity and the longstanding nature of BCCI's regulatory evasion. The Bank of England submitted to the High Court of Justice Chancery Division a petition to wind it up, affecting it in countries all over this planet. The Federal Reserve levied the largest civil fine in the history, against BCCI, $200 million. And the Manhattan district attorney indicted the top managers of the bank.

In announcing the indictments, Mr. Morgenthau stated that BCCI operated corruptly for 19 years, that it systematically falsified its records, laundered the money of drug traffickers and other criminals, and that it paid kickbacks and bribes to public officials. He also said that this largest of Ponzi schemes is over, but that we have much to discover about this bank.

We do indeed. Mr. Morgenthau is correct. The crime has been discovered, but the story has not been told. So today we begin to tell some of that story. We will hear from witnesses who have knowledge of how this bank operated in foreign countries and how

it cultivated world leaders, of how central bank funds were placed on deposit, and whether or not those funds can now be retrieved.

We will consider as well whether U.S. agencies could have acted sooner based on information known to them. Two months ago I asked the CIA for a memorandum that it had given in 1988 to former Customs Commissioner William Von Raab, who will testify today, a memorandum about BCCI. That memo was written in 1986. It was described by Commissioner Von Raab as discussing in a general way BCCI's corporate criminality. When I asked the CIA in conjunction with our investigation for that memorandum, my staff was told it does not exist. Later, the CIA told us they had located it, but asked because of its "extremely sensitive nature," that it be held at the Senate Select Committee on Intelligence. It was, I went there and read it, and subsequently requested the declassification of one sentence. And that sentence showed that the information regarding BCCI as a criminal entity, that it already owned American banks, and that we knew that in 1982. It showed that their information had been disseminated to a number of agencies years ago.

I think the entire question about secrecy in government is once again raised by this issue. Too often too many of us have seen instances where information that people want to keep away from the accountability process is merely classified. There is no rightful reason for it to be classified, there is no matter of national security or urgency contained therein, but it is classified, and thereby we have a secret government kept away from people, which is really part of the constitutional process of this country.

I will tell you that in my judgment there is not one piece of that memorandum that ought to be classified, and I have sought its full declassification. And I hope that we can achieve a process that somehow rectifies the imbalance between legislative and executive branch. Truly our country is threatened when there is a branch of government that can hide whatever it does merely by putting a stamp on a piece of paper.

I do not have the answer for why certain agencies or individuals did not respond at certain times in the course of this. And I want to be fair in this process. We are all capable of oversight. We are all of us capable of just missing something. We are all of us capable of being too busy, of having too much on our plate, of not having adequate resources, there are reasons these things can happen. And I am not going to make judgments at the outset of this process as to what happened, except to try to examine and understand so that there is nothing that is hidden when we finish this.

Over the 3 years that this investigative effort has gone on, we have learned a great deal about the structure and organization and practices of this bank. In some ways this investigation is just beginning, and I am certain that we are going to learn a great deal more in the months to come.

I would just take one moment, if I may, I want to thank those who have investigated it thus far, particularly one of our witnesses, Mr. Blum, who will talk shortly who has spent enormous energy and effort on it; and Jonathan Winer and David McKean of my staff who have toiled at great length in order to try to pull these facts together over a long period of time. Senator.

Senator HELMS. You know, Mr. Chairman, if you and I sat down to write a book on such circumstances as this, there is not a publisher in the land that would accept it. This is too bizaare. It is outrageous.

But anyway, we have got the job, in part, of sorting out a welter of facts and fictions and relationships that is almost impossible to sort out. Before I make my comments, I am glad to see you, Mr. Von Raab, we miss you. Mr. Blum, we appreciate your coming.

But John, seriously, about this book business. Just imagine, if you will, that we sat down to write a book, a novel, about a group of drug traffickers and arms smugglers and terrorists and money launders, about 3,000 of them. Just suppose they had names like Noriega and Abu Nidal and Saddam Hussein, and suppose further that they wanted to start a full-service bank to advance their various enterprises, and suppose that they are smart enough to realize that a single bank in a single country, even a small country with convenient banking laws would be too exposed and isolated to escape inquiry by a smart group of bank examiners.

If you put all those factors together, you would come up with the founding concept of BCCI, or the Bank of Credit and Commerce International. Now of course, there is a lot more that we could fill in in this novel that we are going to write, which is going to turn out to be true. These people need a bank based on dollars because dollars are obviously the currency of the world, and their operations are worldwide. So the bank of these crooks and criminals is highly desirous of penetrating the United States. Do you see the plot developing?

Now after a few false moves are repulsed, these crooks and criminals realized that they need to do more than just penetrate the U.S. banking system, they need to penetrate the U.S. political system. So now the plot thickens. Now I have a chart over there that will illustrate just how interwoven this operation is. And I have passed out copies of this chart, I hope to all who want them. You will see that a Pakistani man, no stranger in this town, set up a group of banks and the first one, BCCI Luxembourg was established in 1971. Then he set up BCCI Holdings, also in Luxembourg, in 1974, and then he set up BCCI Overseas in Grand Cayman in 1975. These three banks made up the BCCI group. Then this Pakistani set up International Credit and Investment Corp. Overseas, or ICCI Overseas, also in Grand Cayman.

Now, readers of our book might say, well, why did he need so many banks? According to the indictment handed down in New York this week, the banks were undercapitalized and listed nonexistent assets. As one bank was examined, money flowed in for the examiner to count. The money stayed for a while, then it flowed into the next bank in the group under examination. It is known that this Pakistani's associate, Mr. Naqvi, kept two sets of books. The banks operation, what the New York prosecutor called a Ponzi scheme, needed cash coming in constantly through the front door to cover the laundered cash going out the back door.

Now, do you not think our book is coming along pretty well?

Although $21 billion was taken in from the depositors, many of them, of course, legitimate, the promoters, according to the indictment, skimmed off as much as $5 billion for themselves. Now, to

cover themselves, these ersatz bankers needed some front men. On the one hand, according to the indictment, they hired a group of Middle Eastern businessmen to pretend that rich oil sheiks owned the bank and were putting their cash behind it. That, however, was part of the scam, of course, because the purported owners did not own the bank. They allegedly had contracts that held them harmless for personal liability.

The other scam was penetration of the U.S. political culture. We know that BCCI illegally purchase First American Bank in this city using the good offices of Clark Clifford and Robert Altman, both of whom maintain that they were deceived. Perhaps they were deceived, but the press reports that in the process of being deceived, the pain of deception was eased just a little bit by a considerable sum of money.

So anyhow, the staff of this committee and many others have analyzed these reports, and based upon the public figures, it appears that Mr. Clifford and Mr. Altman had the opportunity to make about $33,300,000 in 18 months time—I don't know what that is an hour, but it is a fair amount—based upon insider loans from BCCI to buy First American stock at an inside price, and the later purchase of some of the stock by BCCI at three times the price.

Now, I understand that Senator Brown intends to discuss this in some detail, and I shall listen with great interest. It is my hope that Mr. Clifford and Mr. Altman will provide us with firsthand testimony on these points as well. Now, Mr. Clifford's good fortune was not his alone. It appears that BCCI's group through Credit and Commerce American Holdings, also purchased Burt Lance's National Bank of Georgia and Mr. David Paul's Centrust Savings Bank in Miami, both of which were having, do you not know, urgent cash flow problems.

Now, Mr. Lance's political connections need no introduction to anybody nor do Mr. David Paul's. Not even did our former President, Mr. Carter, escape the kind attentions of BCCI either. The press and other media have already discussed the millions of dollars from BCCI that went to President Carter's charities and the personal assistance that BCCI provided for his high profile travels around the world.

Nevertheless, however embarrassing as these events may be for our friends in the Democratic Party, even more embarrassing to me is the failure of our own administration to take vigorous action against BCCI. In 1987 the Justice Department was on notice that BCCI was a nefarious operation when former Customs Director, William Von Raab, sitting right before us today, turned up evidence of money laundering in Miami which resulted in plea bargained judgments against BCCI operatives. Willie Von Raab provided voluminous information on further BCCI activities which was never followed up.

In fact, Mr. Von Raab himself was followed up, in the sense that the administration made it clear that Willie Von Raab was persona non grata in the fight against drugs. I think Mr. Von Raab will acknowledge that he and I went down that road together because I made recommendations for Willie Von Raab to be put in places of responsibility. I know first hand that he was personal non grata. It

is a tragedy for this country not to have Mr. Von Raab in an effective, responsible position.

Willie Von Raab was the only one, the only one in the Reagan administration that took vigorous and effective measures against the drug threat and against money laundering. And I am glad to have a chance to say that publicly on your behalf, Mr. Von Raab. I never could understand why Willie Von Raab was not given the Medal of Freedom for his outstanding accomplishments in this regard, but he could not even get a job in the administration despite the firm recommendations from this Senator and scores of other Senators who admire and respect him.

Finally I note that the first solid information that the Senate received about the BCCI problem in testimony before this subcommittee was from a former associate of Mr. Noriega who defected to the United States and gave detailed information against his former employer. In fact, he was a principal witness in the indictment against Mr. Noriega in 1988. And after Noriega was captured, he was a key adviser in evaluating the Noriega papers and preparing the case against that dictator. But the administration has never cared for Mr. Blandon. While Noriega was still in power, officials attempted to get Mr. Blandon deported back to Panama. So I am making this a bipartisan folly. It is not just on one side, it is on both sides.

In recent months, the Justice Department has pursued a merciless vendetta against Mr. Blandon, charging him with stealing U.S. Government property. However, the property in question consists of his own notes about Noriega. It is a mystery why the Justice Department is seeking to bring a criminal indictment against the most important witness the prosecution has against Mr. Noriega and against Noriega's involvement in BCCI. Mr. Blandon, apparently knows too much about the failure of the Justice Department to act. So, I guess, he must be eliminated.

There is plenty of blame to go around in this matter, Mr. Chairman. So let us start the hearing.

Senator KERRY. Thank you very much, Senator Helms. Senator Cranston.

Senator CRANSTON. First, Senator Kerry, I want to congratulate you for the excellent work you have done, beginning sometime back, on unearthing what columnist William Safire has rightly called, "an underworld-wide financial institution." You, Senator Kerry, took on this when many others who should have joined you, particularly within the administration, were looking away. Time has proven you right and the credit is yours for bringing us to this point today.

As a way of opening our deliberation today, I would like to review for a moment just what kind of activities I understand the BCCI has been up to in the last decade, and perhaps longer. Top British banking official, Robin Leigh-Pemberton charged that "the culture of the bank is criminal." According to the London Economist, "BCCI is uniquely baffling and unusually corrupt." Investigators say there is evidence of fund transfers between BCCI and the Atlanta branch of the Banca Nazionale Di Lavoro, the bank involved in the Iraq loan scandal.

This week, as we all know, district attorney Robert Morgenthau charged that BCCI has paid up to $3 million in bribes to senior officials of the Peruvian Central Bank in 1986 and 1987 in order to capture hundreds of millions of dollars in deposits.

The bank was used by Panama's drug-running dictator, Manuel Noriega. It was used by Saddam Hussein. It was used by Haiti's Duvaliers, by Ferdinand Marcos, and his well-heeled wife, Imelda, and by the South American drug cartels.

BCCI has also been linked to Pakistan's renegade nuclear weapons program, a project reportedly carried out by the help of Libya's Qadhafi, and Argentina's dirty war generals—last seen training the Reagan administration's Nicaraguan freedom fighters.

BCCI is also at the center of a complex affair concerning allegations of illegal shipments of American-made arms to Guatemala's vicious military.

This last item may very well have been the cause of a very special tragedy.

This week a British journalist, Anson Ng, was found shot to death in his Guatemala City apartment. Guatemalan authorities are claiming the murder was the work of common criminals. Independent Guatemalan journalists say that Ng, who had a bullet wound in the head and appeared to have been struck in the neck, had not been robbed, but his personal archives were looted. Three Guatemalan generals are rumored to be behind the illegal U.S. arms shipments. One wonders whether Ng was murdered because his work on BCCI had brought him face to face with the truth.

What has become abundantly clear is that this sinister, criminal enterprise, which Morgenthau has called one of the most complex and secretive criminal organizations we have ever encountered, served as the foreign policy arm of its owners, the rulers of the United Arab Emirates.

Sheikh Zayed, the President of the United Arab Emirates, was an early investor in BCCI and continues to be the principal shareholder in the bank.

The United Arab Emirate connection does not end there, however.

One of Zayed's sons and the crown prince of Abu Dhabi; the Abu Dhabi Investment Authority; the personal holding company of Sheikh Hamad Bin Mohammed Al-Sharqi, the ruler of Fujara, another of the Emirates, and Sheikh Humaid Bin Rashid al-Naomi, the deputy ruler of Ajman, a third emirate, are all shareholders in BCCI front institutions.

According to the Financial Times, "The fraud which lead to the closure of BCCI involved 'representatives of the shareholders,' the ruler, and the Government of Abu Dhabi."

Why is this important?

Beyond the distress caused to BCCI depositors, tens of thousands of whom are individuals and small businesses from the Third World, beyond the lessons BCCI offers to the international banking community, and beyond the damage done to society's fabric when such criminality is carried out on such a scale, there is a further consideration.

The Bush administration has proposed to sell $682 million worth of sophisticated conventional weapons to the United Arab Emirates.

This bristling bonanza includes 20 AH-64 Apache attack helicopters, the most advanced we have in our arsenal, and 620 Hellfire missiles.

A second proposed sale of M1A1 tanks and Bradley fighting vehicles, was nixed by the UAE leadership themselves. According to an unclassified cable from the U.S. Ambassador to the United Arab Emirates, Edward Walker, published in this week's Defense News, the United Arab Emirates decided to delay its decision on the tank procurement "based in part on the conviction that UAE should not go through a congressional notification process at this time, given the potential for congressional criticism on unrelated subject."

This was clearly a reference to questions about whether the United Arab Emirates would use drug profits laundered by BCCI to pay the United States for these weapons, questions that I raised a few days ago on the Senate floor.

The emiris may not have been very good bankers—after all, they presided over a criminal enterprise seemingly destined to go down in history books as the world's worst financial scandal.

They do, however, show some basic common sense strangely absent in a Bush administration seemingly unconcerned about—shades of Noriega, shades of Saddam Hussein—the potential scandal of arms being paid for with BCCI drug money.

The administration justifies this foolish and indefensible sale of the helicopters and missiles to the United Arab Emirates as a payoff to Sheikh Zayed for his loyalty during the Persian Gulf war.

So inescapably the question arises, why the silence? Why the lack of action on BCCI by this administration, so good at managing the crises they themselves create. During the past years there were no lack of danger signs concerning this full service banking service for terrorists, for drug mobsters, for nuclear proliferators, for assorted rogues and professional confidence men.

Who were they afraid of offending, and why? Or, why were they so incompetent in their pursuit of greed's global reach?

I agree with Senator Kerry's remarks that we can only conjecture about the answers to questions like this. Well-meaning human beings do make innocent mistakes, but we must now seek the answers. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. I must say I am shocked by your remarks. I believe the purpose of this investigation ought to uncover the facts. I do not think it should be used as a forum to launch a smear of an administration. I think the purpose of a Senate investigation committee is to get the facts out. And I must say listening to the remarks just made, it seems to me that the facts fell victim to the rhetoric.

I think it is appropriate we have these hearings. And I think the purpose of the hearings ought to be to look into what broke down here. The fact that there are crooks and thieves in this world is not a surprise. We live in a world where we know and understand that. What is a surprise is that the United States and its banking system would fall victim to that scheme. It strikes me we ought to make sure that these hearings are balanced, that they are thorough, that

they are fair, and that the outcome of these hearings is one that allows us to correct policy and change personnel where they are necessary.

I am concerned that we make sure that every aspect of the U.S. banking system, whether it is the Federal Reserve, whether it is the Justice Department, or whether it is the system itself, be examined and that all the facts brought out. I note that the Clifford-Altman stock deal, in 18 months saw the stock triple in value. At the same time, the same people were receiving both fees as attorneys and payment as bank officers. It seems to me that this is an area that we need to follow up on, as well as the entire BCCI area.

But Mr. Chairman, I would close with this thought. If we are to do our responsibility, it must be one done in a bipartisan manner, not designed to gain political advantage, but to serve our constituents that I think have a far more important interest here, and that is to make sure the system works properly.

Senator CRANSTON [presiding]. Well, let me respond by saying yes, of course we have to find who is responsible, we have to find what policies and regulatory practices have failed and why, and what to do about them. And I agree with Senator Helms that this is a bipartisan failing in some respects. Yet at the same time we have had Republican administrations in charge of the executive branch, the banch that basically is responsible for regulation and for these matters, for a good many years in the recent past.

The primary purpose of my remarks was to focus on the dire dangers of permitting nuclear proliferation to occur while crooks of the sort that have been involved in BCCI are involved. And my purpose, in part, is to see to it that we change a policy of unwise proliferation of all sorts of weapons in which our own country is involved. And if we find that BCCI and its money launderers are involved in all of that, that gives us a new facet to deal with, of what I think is a genuine policy issue question, one very much on the front burner in our country and in the Middle East, and in the world. Senator Jeffords.

Senator JEFFORDS. Thank you, I certainly believe this committee has the obligation to investigate, but I would hope that we would keep in mind what our role ought to be. The burden has to lie with the Department of Justice to continue along with other law-enforcement agencies to seek out the culprits and the problems that were created in this country.

But I think it is important for us to take a look at what went on and to provide leadership to develop the international methodologies to prevent a reoccurrence. International corporations that can move and operate around the world without any effective regulation is the real problem which this committee should end up dealing with. And as the Senator from California has pointed out, that is true not only in the sense of what we saw with money laundering here, but in the large sense, the more important problems of a proliferation of nuclear weapons and other systems that enhance the ability of nations to make war.

So I would hope that our ultimate goal would be to work toward a system, an international system will effectively regulate these matters without the kind of intervention of the law enforcement

agencies as is being required in this situation. I thank the Chairman.

Senator CRANSTON. Did either of our witnesses have opening statements that they would like to make at this point?

TESTIMONY OF MR. WILLIAM VON RAAB, WILLIAM H. BODE ASSOCIATES

Mr. VON RAAB. It might be helpful for the record maybe just to give some idea how this started off. I am often asked that question. When I took over the responsibilities for Customs in the Reagan administration, I was asked to increase the energy and muscle that was being applied to criminal enforcement, particularly drug enforcement. It became quite clear to me as time went on that the nature of criminal activity was such, and the amount of money involved in it was so sufficient that banking was a much bigger part of organized crime than it had been in the thirties when people could keep their profits in suitcases and spend them in the local bar. And that banks had to play a very, very important role, certainly, in drug crime, and as well as even smuggling arms out of the United States.

So the Customs Service undertook an effort to try to examine some of the illegal banking activities under the money-laundering laws for which it was responsible at the time. It was then called the Bank Secrecy Act, and it was subsequently improved and strengthened by the Congress. And, as part of this exercise, the Customs Service would set up stings around the country in which it would actually go undercover an offer to launder money for drug traffickers.

And in one of these stings, the Customs Service was using BCCI in Tampa.

Senator KERRY [presiding]. May I interrupt you for just one second? I apologize for doing that, but I thought I would get back here more quickly following the Senate floor vote. We do want to put all witnesses who appear here under oath. I think you knew that, so I would just like to swear you, if I can, both of you, before we go on, so that all testimony here will be sworn.

Mr. VON RAAB. Will that be retrospectively as well as prospectively?

Senator KERRY. We will presume that you did not get far enough or with anything complicated enough.

I will just ask you both to rise, if you would. And would you raise your right hand? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. VON RAAB. I do.

Mr. BLUM. I do.

Senator KERRY. Thank you.

Mr. VON RAAB. So the Customs agents began to use BCCI, among other banks, as a place to facilitate the laundering of their funds, and the BCCI local managers recognized what the undercover agents were doing, although they didn't recognize them for Federal agents. And, they basically offered to assist them and to provide them with even better schemes, and more facilities, and it became clear after a short time that BCCI, certainly as a matter of local

policy, was aiding, abetting, conspiring with, and actively participating in money laundering.

As the investigation proceeded, it became clear to the Customs agents, and now we are talking late 1987, that BCCI itself, apparently, had a corporate policy of involving itself in any kind of activity. It didn't matter whether it was criminal or not. As a result, the Customs Service began a broader ranging investigation of BCCI, largely centered out of it's Tampa office.

Senator KERRY. At that point, when you became aware of this corporate policy, that was as a consequence of what?

Mr. VON RAAB. That was a consequence as our undercover agents talking to individuals who worked for BCCI and who were encouraging our Customs officers, once again, not known as Customs officers, to introduce them directly to drug traffickers.

Senator KERRY. Was Customs alone in that investigation at that time?

Mr. VON RAAB. No, the IRS would have been involved in that because it was typically—any drug money-laundering operation was typically carried out by a joint team of Customs officers and IRS officers. Although, in this case, the investigation was conducted by the Customs special agent in charge, who was Bonnie Tischler at that time, in Tampa.

Senator KERRY. Were the findings with respect to this corporate policy and money laundering memorialized?

Mr. VON RAAB. They certainly would have been written down in the Customs agents' daily and weekly reports. They were never memorialized in a particular report to me that I can remember, although that that information was passed up to me in conversations that I would have had with the individuals responsible for the investigation.

Senator KERRY. Did you disseminate that information?

Mr. VON RAAB. That information would, as a matter of regular practice, would have been passed over to the Treasury Department because they had a liaison officer in the Customs headquarters who, on a daily basis, was made aware of all that headquarters knew in Customs, and then he or she was expected by both Treasury and Customs, to relay what information was felt was important for Treasury to know.

Senator KERRY. This was in 1987?

Mr. VON RAAB. This would have been late 1987. I mean, any investigation like that necessarily begins at a very local level, and it's only as its significance becomes more apparent to the local people that they start to pass more information up top. But certainly by the time we are in 1988, I was aware that this was a very, very significant operation, and that BCCI was a very unusual and probably a highly criminally oriented organization.

It was at this point that I felt that we should, if you will, internationalize our effort and we then put together an operation which we called Operations Sea Chase, or Cash or Currency, and I spoke to my counterparts at British Customs and at French Customs and told them that we had a very, very important case, and that I believed it was important for international law enforcement that we craft an international money-laundering team, almost sort of like Interpol, that would specialize in money laundering. As a result of

which we then put together an investigative unit consisting of several British Customs agents, several French Customs agents, and a larger number of U.S. Customs agents and Internal Revenue Service agents.

This team worked on this in all three countries, although the effort was obviously centralized in Tampa. And it proceeded and we developed a case that ultimately resulted in a serious of arrests that took place in Tampa, in London, and in Paris. I think it was in October 1988, fairly well covered by the news at the time because not only was it an important financial—international financial institution, but there were also a number of other characteristics surrounding it. There was a phony wedding and other things, which basically resulted in absolutely complete national news coverage of this particular matter.

From that point on——

Senator KERRY. This was when?

Mr. VON RAAB. My guess is it was the end of 1988, October 1988, something like that.

Senator KERRY. You said other kinds. What other kinds of things?

Mr. VON RAAB. Well, there was a famous marriage that never took place. One of the ways that we persuaded some of the bad guys to come to the United States was to pretend to have the two Customs agents who had masqueraded as boyfriend and girlfriend plan to get married, and so all the bankers and all the drug traffickers planned to come to Tampa to go to this wedding, and they were all arrested at the bachelors' party the night before.

Senator KERRY. I take it not at any strategic point in the proceedings? [Laughter.]

Mr. VON RAAB. No, no. As a matter of fact, one of the particularly bizarre drug traffickers, when he was arrested at the bachelors' party and was told that he was in Tampa, he was under arrest, and they put some handcuffs on him and started reading his rights, turned to the agent that was arresting him and said boy, this is really some kinky bachelors' party. [Laughter.]

But I'm afraid that was the end of the party and he went right off to jail.

So then what proceeded from that is your normal continuing and followup investigations following the initial set of arrests, which took place in Florida, in London—or in England—and in Paris, and this proceeded through 1988. More and more information was developed, and it was carried out under the auspices of the U.S. attorney in Tampa whose name was Genzman.

As 1989 came along, it was clear that the bank was highly illegal in many of its activities and some prominent names started to surface, particularly Noriega, as a client of the bank. At this point there was a number—or, a number of documents that had been produced were seized by British Customs which everyone felt would be very, very significant. Those documents were subject to any number of lawsuits, as to whether the U.S. Government would get its hands on them.

At about this point in time, the Treasury Department decided that I should be removed from the *BCCI* case, and so I was cut off from any information.

Senator KERRY. What date was that?

Mr. VON RAAB. I don't remember exactly what it was, but it was somewhere, I would say, April 1989. I am not certain when it was, and I only——

Senator KERRY. At what point did Justice become involved with Mr. Genzman?

Mr. VON RAAB. Justice would have become involved certainly before the arrests took place in Tampa, so Justice certainly was involved way back in 1988, and their involvement, of course, is a technical question.

I am sure the agents in Tampa had told Justice about the case before Justice formally accepted the case as a Federal prosecution, but they certainly were deeply involved well into the early part of 1988.

In any case, the other surrounding activity that is of some interest is the Customs Service did make some effort during the early part of 1989 somehow to involve other banking governmental units, and we held one or two meetings on a low level to try to inspire the Controller's office and some of the other sort of Treasury-oriented banking organizations maybe to set up in some cohesive unit to deal not only with the BCCI effort but also subsequently to establish a unit within the Treasury Department that we felt would be useful to deal with this kind of international money-driven, in terms of money-laundering, crime.

Senator KERRY. Is this still 1989?

Mr. VON RAAB. It was still 1989, and I say just parenthetically that the Treasury Department actually, on the day following my resignation, announced the establishment of the Customs-designed center which they called Fin Cen, which I would have assumed would have played a large role in the further examination of BCCI, and I think it is up to this committee to find out what exactly Fin Cen did, but it was Treasury's special coordinating unit for dealing with international criminal banking activity.

To bring the story to a close, I was cut out of the BCCI investigation as I said early or mid-1989, and then the story really comes from the newspapers as to the fact that there was subsequently a plea bargain with the BCCI.

I was annoyed at the time of the arrest in Tampa that there were not more significant indictments brought against higher level BCCI officers and more significant charges brought against BCCI as a corporation. At the time, and it sounded reasonable to me, the Justice Department felt that the evidence that had been collected up to that point was not sufficient to indict on the basis that we wanted to the BCCI itself, and they did not feel that our evidence was sufficient to drag in some of the more senior officials.

I had always hoped at that point that that would happen subsequently. It certainly was the desire of the Customs agents that that happen.

Senator KERRY. Did you note any frustration from the Customs agents with respect to this investigation?

Mr. VON RAAB. The frustration really came more, at least from what I saw, in 1989. They were quite excited about the fact that they got some arrests and were starting off in 1988, so there was an initial flush of great enthusiasm because we really had stum-

bled onto what we thought was—certainly it was in my opinion the most significant case that Customs had ever worked on in my administration, and I was there for 8 years.

In any case, I left the Government at the end of July 1989, and I can only say that I was very disappointed in the fact that the plea agreement that was made with BCCI was not what I think it should have been, and that was tough and holding them up as a bad example to the rest of the banking community. So—but at that point I was not in a position to be arguing with Justice, since I was out in the private sector.

So that is briefly a rundown of how the Government finally got into the BCCI issue and how it dealt with it at least during my term and, of course, I will answer any more specific questions that you or your colleagues have.

Senator KERRY. Before we proceed, let me ask Senator Kassebaum, who has not had a chance to have an opening statement, if she has any?

Senator KASSEBAUM. No, I do not. Thank you, Mr. Chairman.

Senator KERRY. Mr. Von Raab, what I would like to do is come back to questions, but I would like Mr. Blum to draw a larger picture here, and then we will come back with our questions. Mr. Blum, would you identify yourself for the record?

STATEMENT OF JACK BLUM, LOBEL, NOVINS, LAMONT & FLUG

Mr. BLUM. My name is Jack Blum. I am an attorney in private practice in Washington with the firm of Lobel, Novins, Lamont & Flug. I did work for this committee over a period of years, first from 1972 to 1976 doing a number of investigations under Senator Church, and then at your request I came back——

Senator KERRY. What investigations? Just give me a little bit of background.

Mr. BLUM. The most important was ITT. We did an investigation of international banking which included IOS and Robert Vesco. We did—probably the most important of all was Lockheed Aircraft overseas payments. The investigation there created a furor in Japan.

After that, I went into private practice. I was in private practice for 10 years. My first encounter with BCCI came during that period in private practice, when I was working with a private client who wanted to do a business deal with an affiliate of the bank.

I was asked to attend the meeting where he was seeking financing from an American bank, and the client brought up the name of BCCI and the response from the American banker was, we don't want anything to do with that bank. We won't take their letter of credit. I thought it was odd, but my role at that time was not investigator. I just stored the information in the back of my head.

In 1987, I returned to the Foreign Relations Committee at your invitation to work on the investigation of narcotics trafficking and law enforcement and foreign policy. During that investigation, in early 1988, we took the testimony of Jose Blandon, and as you'll recall, Blandon put a chart up that showed what he called Noriega's criminal empire, and at the center of the chart he had BCCI. Suddenly, the information I had parked in the back of my head

years before became relevant, and I began to seek out more information about BCCI.

Mr. Chairman, I understand that the staff has unearthed a series of contemporaneous memoranda which outlined what I found and who I talked to, and I'd ask that those memoranda be made part of the record so that people can understand what was going on contemporaneously.

Senator KERRY. Without objection, they will be.

[The information referred to follows:]

MEMORANDUM

TO: Files
FROM: Jack A. Blum JB
DATE: September 24, 1988
SUBJECT: Memcon with Amjad Awan

WARNING: THE CONTENTS OF THIS MEMO ARE COMMITTEE SENSITIVE. DISCLOSURE OF THE CONTENTS OR THE FACT OF MR. AWAN'S COOPERATION WITH THE COMMITTEE COULD ENDANGER HIS LIFE.

Awan was born in Pakistan on July 30, 1947. He left Pakistan and travelled to Britain as a political refugee. His wife was born in the U.K. and that made Mr. Awan eligible for a British passport and British citizenship.

Awan's first banking job was with Mr. Abadi when he was the head of the United Bank, a bank that Abadi set up before the nationalization of the Pakistani banking system. Awan left United Bank and was working at the International Resources and Finance Bank, a Luxembourg subsidiary of the Bank of Montreal, when Abadi recruited him to come to BCCI.

Awan's first assignment with BCCI was as the marketing manager in London, a job which he took on December 7, 1978. His job was ruunning the main branch of BCCI in London. Awan explained why the bank grew rapidly in London. He said that at the time it started there were a large number of Ugandan refugees in London who were being treated badly by the major British banks. They did not want to continue dealing with them and found BCCI a comfortable alternative. BCCI became known as "the immigrant's bank", and the fact that it was owned by key figures in the Middle East and run by Pakistanis and other third world nationals was appealing.

Awan held the London job for three years. During that time, Mr. Shaik, his immediate superior, introduced him to Noriega at a dinner party Shaik gave for Noriega in London. Noriega introduced Shaik to President Royo and when Royo came to London, Awan was given the job of escorting him around the city. Shaik had been introduced to Noriega by his friend, the Panamanian Ambassador to London. Mr. Shaik used his relationship with Noriega to get BCCI the license to operate in Panama.

At the end of the Awan's three year term in London, he wanted to take over a branch operation. He was offered a newly opened African branch but opted instead to take over the Branch operation in Panama.

He moved to Panama in 1981. The branch there had been in operation for one year. When he arrived, there was a single office in Panama City and the deposit base of the bank was about $40 million. Most of the depositors had medium-sized accounts ranging from $50,000 to $200,000. The depositors were Lebanese and Palestinian merchants living in Panama. Later, a significant part of the Jewish community in Panama came to the bank. Awan said that many of them had come from Syria to Panama and spoke Arabic.

The bank was almost entirely deposit focused. There was little lending authority at the branch level. Awan, as the branch manager could not make a loan of over $50,000 without approval from London. Deposits were another

matter. The bank paid the depositors the market rate on their money and Awan sent the money to the Bank's central treasury operation in London where he was credited with an automatic 1% spread.

When Awan arrived in Panama he made a conscious effort to cultivate both President Royo and Noriega. He said that he was particularly interested in getting some of the banking business of the Panamanian Defense Forces. Although Noriega referred some business to him, it was marginal and the efforts to get serious business did not bear fruit until 1982 when Noriega opened an account.

Awan first came to know Enrique Pretelt through the Christmas gifts the bank purchased from him for its significant customers. Pretelt owned the highest class gift and jewelry shop in Panama City. Besides the store in Panama City, he had two shops at the airport and had the concessions for Cartier and other famous lines of crystal and jewelry.

Although Awan pressed him for account business, Pretelt did not come to the bank until the bank opened an operation in the Colon free zone. Pretelt asked the bank for a $100-$150,000 line of credit on his name alone which Awan granted. He said that although it was well known that Pretelt was a "wheeler-dealer" the account was satisfactory to the bank.

Awan described the free zone as the smuggling center for all of Latin America and the Caribbean. Electronics, watches, perfume and other luxury goods were imported there and then picked up by the families which controlled the smuggling in the important centers of the region. All the sales to smugglers were for cash and the importers and wholesalers generated a significant demand for letters of credit.

Bilonick came to the bank once before the Inair bust to try to get a $1 million line of credit. He offered no security for the proposed loan and when Awan asked him about how he intended to repay the amount he pointed to his gold Rolex. Awan said he threw him out of the bank.

Later, Bilonick came into the bank, and through one of Awan's assistants opened an account with a large cash deposit. He then borrowed the maximum he could against the deposit and left the bank. When the principal and interest on the loan reached the amount of the deposit, the bank wiped out the deposit and closed its books on him. Awan says he later learned that Bilonick had disappeared because of his role in the Inair affair.

Asked why anyone would want to borrow against their just-made cash deposit, Awan explained that that was one of the most common transactions in Panama. The account would be opened in the name of a corporation and the borrowing would be by the signatory on the account. Although the bank related the two transactions and indeed used the deposit by the corporation as collateral, all records of the connection between the two disappeared when the account was closed out as collateral for the loan.

Awan did not meet Cesar Rodriguez until 1983, when he was introduced to him by Enrique Pretelt. Pretelt said that Rodriguez was a "business associate" but never described the business they were in. The first request was that the bank finance a fleet of limousines for Pretelt who wanted to start a limousine business in Panama. The bank went forward with that project and

Rodriguez asked the bank to finance the construction of a "bankers club" on the top floor of the Bank of Boston building in Panama City.

Awan thought the idea was a good one and extended the line of credit. He also financed a number of theatrical events for Rodriguez who, as an impresario, brought performers into the country. Finally, Rodriguez came to the bank to find financing for his bid on a $50-$60 million hydroelectric project. He was certain that his group would get the contract and that a Polish consortium would be hired to do the construction.

The Polish group never got the contract and the Bank was left with about $3 million in outstanding loans when Rodriguez's plane crashed in Colombia. Awan says that after the crash the staff of the bank came to him and told him that Rodriguez was a gun runner, had a bad reputation and had been involved in the Inair deal. When he went to Pretelt to complain, Pretelt said that they were no longer business partners and that he, Pretelt, could do nothing to help the bank recover the money.

Awan met Mike Harari at one of Noriega's parties. The word in Panama was that Harari was the Mossad chief for the region. He was believed to have been assigned to Panama after messing up an assassination effort aimed at the Black Septemberist involved in the Munich Olympics massacre. Instead of killing the terrorist, he killed an innocent waiter in Lillehammer, Norway, causing a significant scandal.

Harari was known to be involved in the arms trade, but all of the involvement was assumed to be official. There were a large number of Israelis throughout the region all engaged in arms sales and the all dealt with Harari.

Awan became involved in the sale of Contadora island when he was asked to meet with President Del Valle in New York after he had been transferred from Panama to the United States. Del Valle said that he was sent by Noriega who wanted him to help find a buyer for Contadora Island. Noriega had made the decision to sell the Island and he knew that Awan knew Gaith Pharon, a wealthy Saudi who was a shareholder in the bank at that time. Pharon had an interest in Club Med and the Hyatt hotel chain. Noriega thought Pharon would be interested in bidding.

Pharon took a close look at the deal and decided to make a relatively low bid. Awan said that the problems with the proposal were that Contadora lacked sufficient water, the hotel was run down and at least $5 million would have to be invested to bring it up to first class standards, there was very limited air service to the island from Panama and the owner would have to run his own air taxi service.

Awan said that Aoki was a friend of Noriega and that he bought the island at a price that was too high, not one that was too low.

Awan said that BCCI stayed out of the arms trade. He said that the bank did not finance weapons deals and that the only proposal he saw regarding a weapons deal was from Iranians who were trying to buy weapons in Europe and wanted to finance them in Panama.

As Awan described it, cash came into Panama from all over the world and all the banks that need cash tapped the Panamanian market. He said that

BCCI stayed out of the cash handling business because it was too expensive. He said that an employee of the bank had been approached by Brinks, which ran the only armored car business in Panama, and was told that for a commission paid to Brinks, the bank could get cash deposits referred to it.

Awan said that the National Bank of Panama charged a 1% cash handling fee and the people at the National Bank always short counted the money sent there by several hundred dollars. Given the low return that Awan could get on deposits by sending them to London, it made no sense for him to pay commission to get the cash.

The bank did not use armored cars to handle the transfer of excess cash. Awan carried the cash himself in the trunk of his car and did not worry about being robbed. He said that Panama at the time was quite safe.

Awan said that the cash business that the bank did was in connection with the Colon branch, where the cash was handled as an accommodation for their customers. These customers were the wholesalers and importers who were selling to smugglers who paid in cash. When asked about the Cuban business in the Colon zone, Awan said that he knew that there was a Cuban corporation in operation there and that the bank had one customer who did a substantial business selling hotel equipment made in the United States to the Cubans. He said he was unaware of the use of Colon as a place to move high tech equipment to Cuba around the U.S. embargo.

Certain banks paid higher than market rates for deposits and seemed far more interested in the cash deposits. These included the Swiss, Colombian and large American banks. The Swiss established regular flights from Panama to Switzerland to carry accumulated currency out of the country so that it would not have to be turned over to the National Bank of Panama.

The questioning returned to the account General Noriega opened with the bank. Awan said that he had been asking Noriega for business regularly when one day Noriega called the bank and said that he wanted to open an account. He told Awan that the account would be the secret funds of the Panamanian Defense Forces and that he, Noriega, would deposit the money and then call Awan to tell him how to disburse it. No Panamanian was to see the account, it was not to be booked in Panama and Noriega did not want any paper kept on it.

Awan said that he had to explain to Noriega that an account could not be opened without some paper and that there had to be an owner of the account who had the authority to make withdrawals. Awan drew up appropriate papers and brought them to Noriega. The papers put the account in Noriega's name.

The first deposit in the account was mostly cash in an amount around $200,000. There were some small checks in the deposit. Later, the deposits were in the form of both cash and checks with most of the checks coming from the Panamanian Defense Forces accounts and made payable to the bank.

Cash payments were frequently made out of the account. Noriega would call Awan and tell him that someone would be coming to the bank to ask for a cash payment. The person would then show Awan a note signed by Noriega and Awan would then pay the money out. Most of the people who came for

these payments were politicans and the first use of the fund was to buy political figures in connection with the 1984 Presidential election.

As Awan recalled it, the largest amount of cash to be deposited to the account was $900,000 and the balances in the account never topped $25 million.

In 1983, the bank issued its Visa card to General Noriega, his wife and his daughters. Payments on the Visa cards were made from the interest that the amounts on deposit generated and the balances were automatically debited to the account. Awan would also use the account to pay travel expenses for the General and members of his party. He would accompany the General on his trips and make sure that there was cash available as needed.

On one occasion the account was used to offset a loan on an apartment in Paris. The total amount of the loan was $400,000 which meant that the principal amount was somewhat lower. The loan was paid off from the interest the account generated.

Awan left Panama in 1984. He had reached the usual end of tour for a manger and had the additional problem of having allowed the branch to become involved in a multimillion dollar fraud involving fraudulent treasury checks. The fraud scheme started with a reputable Panamanian law firm opening an account in the name of a front corporation. The bank dealt with the law firm because they were reputable and had given the bank good business in the past. The beneficial owners of the account, BCCI was told, were Hong Kong Chinese. The lawyers deposited several million dollars worth of Treasury checks. BCCI refuse to credit them until they had cleared and sent them to the Bank of New York for collection.

When the Bank of New York notified BCCI that the checks had cleared BCCI released the funds which were immediately transferred. Almost the day the funds moved, BCCI was visited by Treasury investigators who said that the checks were fraudulent and that the credit was being reversed. Although some money was recovered the bank lost substantial sums. When that loss was combined with the loss on the Cesar Rodriguez loans Awan did not look too good.

When he was told that he was being transferred to Washington to work in the representative office of the bank, Noriega called Abadi and told him that he wanted Awan to stay in Panama. Abadi said that that could not be done but that Noriega could continue to deal with Awan as his personal banker. In that role, Awan traveled to Panama once every few months, consulted with Noriega on the phone and accompanied him on his visits to the United States. Awan says that his main function was to present Noriega with a statement of his account, showing him what bills were paid and how much cash had been delivered according to his instructions.

In July 1987, Awan was sent to Florida where he became the marketing manager for the Latin American and Caribbean. He was based in the Miami agency. The function of the bank's agency offices is to take deposits from non-resident foreigners. The money is almost exclusively flight capital.

The nominal boss of the Miami operation was Mr. Shafi. He is old and has the job because of his long standing relationship with Abadi. He had little understanding of what was going on and holds his position as a

figurehead. Patrick Lynch was the man in charge of the three Florida offices. Mr. Jindani handled administration and personnel management, Marvin Hancock ran the credit division, and Mr. Hassan was Awan's predecessor as the head of the marketing department.

I asked Mr. Awan if he had ever been approached to launder drug money. He said that the bank had a conscious policy of avoiding drug money and that he was aware of only one situation where that sort of money had been offered as part of a government sting operation. The bank told the people involved that they would fill out the currency form on the deposit and the conversation ended.

MEMORANDUM

TO: Senator John F. Kerry
FROM: Jack A. Blum
DATE: October 7, 1988
SUBJECT: BCCI: The Takedown, Background and Talking Points

Background

During the next three days more than eighty people associated with the Bank of Credit and Commerce International and related companies will be arrested for money laundering and drug dealing. The arrests will be in more than a dozen locations here and in Europe and have been carefully coordinated.

At the same time the bank itself and a variety of acounts which have been indentified as drug accounts will be seized here and in London and Paris. The seizures should total more than $50 million dollars if the police are lucky.

The operation is being run by the Customs service. The Customs Service, the Treasury Department and the Justice Department will have a joint press conference. My understanding is that they are working on snappy graphics and an elaborate show.

This is the centerpiece of a three part drug extravaganza set for next week. The other peices involve large scale arrests directed at the Jamaican posses and a roundup of a large smuggling organization. All of this is timed to preceed the Thursday debate.

The Customs operation is the result of a two year sting operation. Officials of the bank were lured into a house in Tampa rigged up as a recording studio where a variety of drug deals were proposed and transacted. The indictments all come off the underoverwork and do not really tie the bank back to Noriega. Further, the investigators have a somewhat limited knowledge of the bank's shareholders, business activities and other connections.

Our investigation of the bank began in April of 1987 when we first heard reports of their involvement in money laundering activities. The inquiry opened into the public testimony of Jose Blandon who identified the bank as part of the Noriega Criminal Empire, and the testimony of Leigh Rich and Mike Vogel who said that they were directed to the bank by Noriega to launder money.

In March 1988 the Committee voted to issue subpoenas against the bank and a number of named individuals. When the Subpoenas were voted the Justice Department asked the committee to delay its investigation because of the undercover operation underway.

we agreed to the delay and told the Department that we did not want to do anything to endanger their work.

At that time I talked to Joe Magri, the Chief Assistant in the Tampa office about the case. I told Magri that we had information about Noriega's involvement with the bank. I tried to describe the international operations of the bank and encouraged the U.S. Attorney to look at the larger international picture. In subsequent conversations I shared a considerable amount of background information about the bank.

I continued to develop information about the bank through a former high level officer who was not involved in the criminal activity but suspected it was going on and quit because he did not like what the bank was doing. [redacted]

The attached documents and the deposition should give you all the information you need to handle the press inquiries. In my veiw once Awan is arrested all our promises about keeping his material confidential are off. I plan to call Altman shortly after the arrests and tell him that all bets are off.

The only piece of information missing from the package is about two other Pakistanis and two affiliated companies who will be taken down at the same time. They are Capcom Finacial Services, Ltd. a commodities brokerage firm with offices in London, Miami and Chicago, and its President Mr. Akbar as well as a London based trading company run by Mr. Ali Shaik.

Capcom is owned by the Saudi, Gaith Pharon, who financed Akbar's entry into the business. People who know Pharon are certain that he would know that the company was engaging in illegal activity because he keeps his investments under very close watch. We have met with Mr. Akbar on two occasions he lied about the nature of his activities but gave us some general background.

Ali Akbar was the man who arranged the billion dollar loan to the government of Nigeria. He developed close relationships with the Nigerian government and we believe is involved in the laundering of heroin money through New York and Lagos.

New Material for the Press

We should release the details of the bank's dealings with Noriega, the Awan transcript, and the Noriega hotel bills. You should ask why the government didn't do more to tie up Noriega's money.

Note that the Swiss government has decided not to cooperate in the takedown and complain about the Swiss lack of cooperation.

Note that the Saudis who own the bank are the same people who own First American in Washington. This will not be mentioned by the Feds although the press will be very aware of it.

This bank has close connections with the government of Bolivia and the top people in that government. The President of Nigeria keeps his account with the bank and the bank is close to the Nigerian Government. Note the international implications.

The bank is uninsured and will most likely fail as the result of seizure and the raid because it will be followed by a run which the bank cannot meet. Luxembourg does not back up its financial instiutions and no central bank will keep BCCI afloat.

Note that key Saudi shareholders were involved in financing operations for the U.S. in Central America and it is widely believed they were involved elsewhere. This raises the question of whether the bank has intelligence connections. (Sources in the intelligence community have said on an off the record basis that it does have connections.)

This will be the largest financial scandal in world hisory and repeats a pattern we have seen before starting with Bernard Cornfeld in I.O.S. followed by Vesco then Nugen Hand Bank and Bishop Rewald. IOS was a $2 Billion dollar offshore fund, this is a $20 billion institution.

You must alert the debate preparation team that this is going to happen and prepare them for it.

We should take credit for fingering the situation and clearly make the press look at the big picture rather than focus on the busts and the bad guy transactions.

You are set with NBC for Tuesday and the Today show Wednesday morning.

I would stress the questions it raises and insist on full investigation of the related companies and the other connections to governments.

BCCI has very strong relationships in China and is said to be the largest foreign bank operation in that country. Part of the strength of the relationship is based on the relationship between the Chinese and the Pakistanis and the political connections between Abadi and President Zia. [redacted] said that when Abadi had his heart attack Zia was told about it and left his dinner table and guests to go to the hospital to be with him.

[redacted]

[redacted] believes that there are regional records on the large deposit relationships which are kept in Miami because the account executives are paid on a percentage of the deposits which the generate. The region must know about there deposits no matter where they are booked so that the individuals involved can be rewarded appropriately.

I asked [redacted] if the operation wan similar to the Kornfeld-Vesco IOS scam of the 1970's and he said that it was. The difference is that the operation has taken the form of a bank rather than a mutual fund and the techniques for moveing money have become more sophisticated that the salement carrying suitcases employed by Kornfeld.

Blum Observation: The Bank appears to be both a major money laundering operation and to have relationships with the intelligence community. Much of what was described by Calvo can be verified by getting the Bank records from the Miami office and from the individuals involved.

The key players are:

[redacted]

2. Bank of Credit and Commerce International Overseas Limited, Miami Agency 19th Floor 1200 Brickell Avenue

3. Bank of Credit and Commerce, Latin American Region, 15th floor

[redacted]

Senator KERRY. But I would like you to describe it yourself at this time.

Mr. BLUM. Certainly. The first piece of luck I had in the investigation was to find a very senior BCCI officer who was in the process of disengaging from the bank.

Senator KERRY. When was this?

Mr. BLUM. This was in the spring of 1988, probably early March. He met with me in Miami and said, look, I'm getting out of this place. You have to understand the business of this bank is dealing with roughly 3,000 high net worth criminal clients, that most of the other activity, the branch activity, the myriad corporations, is not real banking business for them. What they do is fully service these 3,000 clients.

He went on to say, for example, that they'd bought a bank in Columbia, and the purpose was to get access to the drug cartel money, to be in a position to service the drug cartels. He went on to describe the relationship between the bank and General Noriega.

He identified for me the man in Miami who handled Noriega's accounts, Amjad Awan. He identified all of the senior staff in Miami familiar with Latin American operations, and he said that Noriega's money was being managed by Awan from Miami and that there were records in Miami relating to his activities as a money manager.

Senator KERRY. Now, we are talking about 1988, the summer?

Mr. BLUM. We are talking about 1988, the spring of 1988, while we were then holding hearings on Noriega and money laundering.

Senator KERRY. You committed that to writing at that time?

Mr. BLUM. Yes, and there's a memorandum, and the memorandum reflects roughly what he said.

Senator KERRY. Well, do not let me interrupt. Keep going with what you discovered.

Mr. BLUM. We then—I came back to the committee and requested that the committee authorize the issuance of subpoenas against the bank and against the named individuals for records relating to Noriega and other matters. The committee unanimously voted those subpoenas, and before the subpoenas were in fact granted and issued I communicated with the U.S. attorneys in both Miami and Tampa.

The problem was this. We knew there were pending indictments of General Noriega. We also understood that if we gave a Senate subpoena with a 30-day return date, if these people were as evil as we thought they would destroy the documents, and I wanted to make sure the U.S. attorneys had the opportunity to get a search warrant, go in and get the necessary paper on Noriega, so that if there were moneys available that they could reach they could seize them and they could get the record of his financial dealings.

When I called Miami, I was referred to Tampa. I talked to Mr. Joe Maigre, who was then the deputy in Tampa, who told me there was an undercover operation underway, and that was the well-advanced operation C-Chase that was described by Mr. Von Raab.

I was not told the nature of the undercover operation. What I was told was that agents' lives were in danger, and that he—and then he was followed up by the Department of Justice in a formal

way—requested that we defer the issuance of the subpoena until we got a go-ahead, or else we would jeopardize this very major undercover operation. There's a memo that discusses that request and the followthrough to it.

We deferred on the issuance of the subpoena, but I said to Maigre, look, what I'd like you to do is give me the opportunity to tell the agents working the case the depth and the seriousness of the problems with this bank. Based on my conversations with the witness in Miami and other information I had then gathered, it was clear that I could add something.

Maigre arranged a conference call in which I talked to all of the undercovers and the supervisors working the case. None of them were ever identified on the phone. I subsequently learned the names of a few of the people who were in the room, but the conversation was fundamentally with Maigre.

In the course of that, we laid out some of the history of the bank, the nature of the criminal clientele, and the connections the bank had. I invited them to come back at me with questions. The invitation was never followed up.

In July—this is now July 1988—we were beginning to reach a point with the subcommittee where it was clear that unless we began to act quickly to issue the subpoena the work of the subcommittee was coming to a close. The investigation had been voted for a 2-year period. My commitment with the subcommittee was for 2 years, and we simply had to get on with that subpoena or we weren't going to do it.

We called the Department of Justice and the Department of Justice, for reasons I do not know, said go ahead. There is no problem with Tampa. I made that call. Kathleen Smith was on another line. She was working with me. Tampa signed off, and we went forward with the subpoenas.

As soon as those subpoenas hit Miami, my phone began to ring. The first call was from a woman in London who wouldn't identify herself and said there's a man you ought to talk to. His name is Ali Akbar. Mr. Akbar has important information about the bank. Call him. Here's his number.

I called Mr. Akbar and he said yes, he did have important information, that he had worked for the bank and he had run its central treasury operation. I asked, would he be willing to come to Washington to talk to me about it, and he said yes, he would, if I would fax him a letter inviting him—and that letter is one of the documents, I believe, that has been released—he would be over immediately, and 2 days later he was sitting in my office.

Senator KERRY. Let me just interrupt you to say that that letter will also be made a part of the record.

[The information referred to follows:]

CLAIBORNE PELL, RHODE ISLAND, CHAIRMAN
JOSEPH R. BIDEN, JR., DELAWARE
PAUL S. SARBANES, MARYLAND
ALAN CRANSTON, CALIFORNIA
CHRISTOPHER J. DODD, CONNECTICUT
JOHN F. KERRY, MASSACHUSETTS
PAUL SIMON, ILLINOIS
TERRY SANFORD, NORTH CAROLINA
BROCK ADAMS, WASHINGTON
DANIEL P. MOYNIHAN, NEW YORK
JESSE HELMS, NORTH CAROLINA
RICHARD G. LUGAR, INDIANA
NANCY L. KASSEBAUM, KANSAS
RUDY BOSCHWITZ, MINNESOTA
LARRY PRESSLER, SOUTH DAKOTA
FRANK H. MURKOWSKI, ALASKA
PAUL S. TRIBLE, JR., VIRGINIA
DANIEL J. EVANS, WASHINGTON
MITCH MCCONNELL, KENTUCKY
GERYLD B. CHRISTIANSON, STAFF DIRECTOR
JAMES P. LUCIER, MINORITY STAFF DIRECTOR

United States Senate
COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, DC 20510-6225

July 26, 1988

Mr. [illegible] Akbar
Capcon Financial Services, Ltd.
9-13 St. Andrew Street
London EC4
England

Dear Mr. Akbar:

Thank you for taking the time to talk to me on the telephone today.

As I indicated during our conversation, the Senate Foreign Relations Committee's Subcommittee on Terrorism, Narcotics and International Operations has been actively investigating certain international banking issues. Your name has been suggested to us by an expert in the field who has told us that you might be able to provide helpful infomation and insight.

My colleague Kathleen Smith and I are most anxious to talk to you at an early opportunity and would like to arrange a meeting at a mutually convenient time and place. We would prefer meeting you here in Washington, although we are prepared to meet you elsewhere in the United States or in London.

Please let us know as soon a possible what your schedule is like so that we can make the necessary arrangements.

We are looking forward to meeting with you and again thank you for your cooperation.

Sincerely,

Jack A. Blum
Special Counsel

Mr. BLUM. Mr. Akbar began to talk a bit about the capitalization of the bank, and hinted that there were very, very serious problems and that the bank's high officials were extremely nervous about the investigation that I was undertaking. He was clearly trying to find out what I knew, and we did a little bit of that investigative horse-trading.

Then he said, by the way, I'm a good friend of Mr. Awan, the man you have subpoenaed, and you may not know this, but the subpoena was misdirected. A wrong Mr. Awan got the subpoena. The Marshals Service gave it to the wrong guy, and now the lawyers for BCCI are trying to tell him to leave the country so he won't have to get served with a subpoena. I think that I can arrange to have you meet with him. I'm going to go down to Miami and see if he won't follow their instructions and whether a meeting can be set up.

He went to Miami, and I agreed to meet him 1 week later, or several days later, in New York, and I met him, and we had lunch at the Intercontinental Hotel. I am delighted to say that I paid for lunch, and I later found out that that was a $30 million lunch, because according to reports that have recently been released, Mr. Akbar was paid roughly $30 million not to deliver to the committee computer diskettes which would have laid out in detail the fraud at the heart of the bank.

Mr. Akbar arranged the meeting with Awan, and another week later Mr. Awan came to my home in Annapolis.

At that time, another very interesting thing happened. I have some very close friends in law enforcement here in Washington who called me, and they told me that they were close friends of undercovers working in the operation in Tampa, and they wanted to pass a warning to me that I shouldn't allow Mr. Awan near my home, and I said, why is that, and they said these people are murderers, drug dealers, they're actually dealing in the narcotics, and you're taking a great risk.

I had talked to him on the phone. He certainly seemed pleasant enough, and I thought under the circumstances the risk was worth it. We met and talked for probably 8 hours at my home. There's a lengthy memo that goes into some of what he said.

He was clearly playing games. He gave me some information but not all, and in that conversation it became clear that this bank was a major criminal enterprise with many, many problems.

He arranged—I told him that I wanted him represented by counsel. I gave him a list of lawyers.

Senator KERRY. Would you share with the committee, perhaps at that point—when you said many, many problems, a major criminal enterprise, give us a sense, then, of what you knew about this bank. What was motivating you then? What kind of knowledge did you have that said, this is worth taking risks, this is worth pursuing? Why should we care about it?

Mr. BLUM. Well, first we had information that it was Noriega's bank, which was in itself pretty significant. But then he goes on to say, look, this bank is tangled up in a wide range of other activities and it's dealing with criminals all over the world. That it's not just here, it's in many other places that they are handling drug money.

But on top of that he went on and talked about the ownership of First American Bank. He talked about meetings that were held in Europe where First American Bank was described as part of the BCCI empire. He discussed the relationships between BCCI and various Governments, and all of this led me to believe it was a very major business.

From there, we made arrangements for him to get private counsel and proceeded to take his deposition, I believe in very early October, and that deposition was released publicly the day after the takedown on Operation C-Chase.

Senator KERRY. What date would that have been?

Mr. BLUM. That probably would have been early October. I don't have a precise date. It would have been around October 6 or 8, something like that.

Senator KERRY. 1988?

Mr. BLUM. 1988. This was just prior to the committee really closing down because of the coming election. Again, there's a contemporaneous memo of the events surrounding the release of the information.

By then, I was also getting calls, back channel calls and helpful calls, from former employees of the Washington office of BCCI, and here, remember, we had a subpoena out with a return date. An extension was granted on that subpoena, and the return date was set for September.

While that process of document collection was underway—and we were visited by Robert Altman and another partner of his, Mr. Kovens and assured there would be complete cooperation. They expressed great mystification at the reasons for our request—while the search for these documents was underway, I began to get calls that Mr. Naqvi had flown over from London and the documents had been shipped up from Miami and were being shredded in the Washington office, that there was a team of people at work shredding documents that were due us under the subpoena.

I talked to Mr. Altman who assured me nothing like that could be going on, that they were still trying to find documents, and again with great protestations of cooperation kept telling me they couldn't find anything. The problem was at that point we ran out of time. There was nothing more I could do. To get contempt, you need a committee. The committee was not to meet again, and we discussed various options. The only option was to turn what we knew, again, over to Federal authorities.

Again pursuant to your request, I contacted the authorities in October, after the takedown, to say we had more information, did they want it? They said they'd be back in touch, and there was no further contact at that point. They never followed up to get the further information we had.

We then began the process of wrapping up the investigation, as you will recall, and that included writing a report, cleaning up all kinds of things, boxing the documents, and getting them to archives.

In the last week of March 1989, while I was in the process of cleaning out my desk, literally, I received a telephone call from a former client of mine who said, I was just talking to this guy who was very highly placed at BCCI, and he brought your name up, and

he said that your investigation almost brought the house down there and that there was a full court press to make sure that it did not get anywhere, and I said, would this guy talk to me?

I arranged then with Customs and IRS to have a hotel room wired in Miami, to meet this guy to find out what he had to say and why this was going on. Customs and IRS wired the room. It was in the Embassy Suites Hotel near the Miami Airport.

There were many sort of funny scenes, one of them when the agents discovered that Embassy Suites uses cinder block between rooms, and you can't drill through cinder block to run a wire through the wall so they had to figure out how to get the wire through the wall.

But we then debriefed this guy for 3 days—3½ days—and in the course of that debriefing he laid out in exquisite detail the false capitalization of the bank, the question of strawmen holding stock, loans to the strawmen to pay for the stock but the loans would never be collected, the use of the bank to purchase First American, National Bank of Georgia, Independence Federal in Encino, CA—he went through the litany of things you are now reading about, perhaps not to the final level of the so-called black unit in the bank, but he was extraordinarily knowledgeable.

I have never identified him. The Customs Service and the IRS have kept his name secret. He genuinely fears for his life. But in any event, this man's tapes were then in the hands of Customs and IRS.

At the end of the 3-day period, I said to him, look——

Senator KERRY. Mr. Blum, let me just interrupt you. Just so the continuity here is right and clear, the tapes were in their hands at what time, now?

Mr. BLUM. Well, this is now March.

Senator KERRY. The debriefing.

Mr. BLUM. The last week of March 1989.

Senator KERRY. At that time, efforts to secure the documents under the subpoena were continuing through Mr. McKean and Mr. Winer.

Mr. BLUM. Yes, and further you will find in the documents that are made a part of the record I communicated to you the materials I'd heard about this fellow along with certain other memoranda which I believe, to protect him, are still being kept confidential. I do not believe they are part of the package, but you have, and had at the time, those memoranda.

Senator KERRY. Correct.

Mr. BLUM. We then proceeded to have a conversation. This fellow in the hotel room and I, and I said, look, you're in a very serious jam. You were very close to extraordinarily illegal activities. I think you should become a cooperating Government witness, and after working on him for about 2 hours—and all of this is on tape—I persuaded him to go to Tampa with me.

Customs and IRS accompanied us on the plane. We flew up to Tampa and met with a team that consisted of other Customs and IRS agents and two representatives of the U.S. attorney's office. The agents were quite excited. They seemed ready and eager to go forward.

I had lengthy conversations with at least one of the assistants, Mark Jakowski. He was eager to go forward. They seemed very excited by the new information they received and by the evidence.

Two weeks later, off the Senate staff by then, moved out of my office, I made a second set of arrangements for the—an earlier witness who I'd encountered to come back, meet me in Miami and do the same thing, and we went through the same routine. This time we tried a hotel with more hospitable walls, and we flew with him back up to Tampa where he talked again to further agents, laid out his story, and agreed to cooperate with the Government as a witness.

The strange thing is that after that effort to put this all in the hands of the Justice Department—and I might add that at the time I went to Miami, at the instruction of the chairman I shared with the agents working the case materials we had gathered, memos I had written and other materials we had gathered, so that they would have a complete picture of what we knew.

I waited for something to happen, and what happened was, I started getting calls from the two guys I took to Tampa who said, they're not following up. Then I talked to the agents, and the agents said well, we're very busy. We're working on preparations for the trial.

No follow up, and I began to worry that something was very wrong with this case. In—I now believe it was late May, I decided that I would bring this matter to another jurisdiction, and that was New York. Our Federal system mercifully allows for parallel activity. If the State government fails, the Federal Government is there, and vice versa.

Senator CRANSTON. Could I ask what you thought was wrong in that jurisdiction? Why did you think it necessary to change?

Mr. BLUM. I thought that if this evidence was before them and they had so few agents that they couldn't follow up on this—and the other problem was, Senator, they had seized so many documents from that bank, the agents told me they paid $30,000 to make one xerox copy of the documents.

When I got to Miami and met the team, they had 1½ IRS agents on the case, period, full stop. They had no one reading the documents, and they were not following up in any way I could understand, and I believe that with that level of effort, they were never going to get to the evidence that I brought them, and I thought this was really significant.

So I went up to New York and I talked to Bob Morgenthau and essentially told him what I knew. On the basis of the same evidence, essentially, and he ultimately communicated with the same witnesses, he produced the indictment that you read about the other day.

Senator KERRY. Let me just interrupt you. We had already previously had Bob Morgenthau into the committee to testify regarding the New York link, had we not?

Mr. BLUM. We had talked to him. We had had him here as a witness on the issue of money laundering.

Senator KERRY. Prior to that time?

Mr. BLUM. Prior to that time, that's correct. Morgenthau really did the investigation. He finished out the piece that I couldn't. He

found the additional witnesses, and using a grand jury was able to seriously subpoena documents in a way that was not possible from where I sat. I then continued to be interested in this essentially as a private citizen, and there are several additional pieces of information.

Because of my involvement, I became a magnet for people who were interested in the problem and I got to meet even more people who were associated with the bank and become involved in more of the bank's problems.

As a footnote, Mr. Von Raab tells you about the flap that occurred when certain documents from British Customs became public in the United States. Well, I was—in the summer of 1989, July 1989, my wife and I were on our way to Europe for a month's vacation and we were literally—the cab was in the driveway, the bags were about to be loaded, and the phone rang. Customs, Internal Affairs. We have to talk to you. It is absolutely urgent.

I said, nothing I can do. The plane's leaving. We are on the way to the airport. If we don't make this flight, my marriage is finished. They said, we'll meet you at the airport, and sure enough, two Customs Internal Affairs agents came to the airport, and they didn't want to know about what was going on in Tampa or who didn't follow up or why.

They wanted to know, what did I know about how NBC got these documents that I had never seen, and they were so anxious to find it out, they held the plane for half-an-hour, and of course my fellow passengers must have wondered who I was, with Customs holding the flight to talk to me while they're waiting for the takeoff.

I was surprised at the vigor they pursued the leak, and the lack of vigor they used in the rest of the investigation.

There were additional pieces that began to come clear, and they became clear because the witnesses continued to talk to me and I met yet other witnesses. The people who talked to me talked about a variety of issues that have not yet been surfaced, and I'd like to tick off a few of them because it may give you some idea of the directions in which this investigation may go.

First, on the banking issue——

Senator KERRY. Just before you get to that, so that we are clear in the continuum here, during the period of early 1989, that was the period when the report that the subcommittee put out was being completed, is that correct?

Mr. BLUM. That's correct.

Senator KERRY. Then subsequent to that, after the committee report came out, when you were no longer formally assigned to the committee or part of the committee, you continued, however, I believe, to discuss matters with staff on the committee?

Mr. BLUM. I continued to talk to David McKean and Jonathan Winer.

Senator KERRY. During that period the committee, I believe, continued to try to get its subpoena enforced, but was very frustrated by the inability to get the documents which eventually Bob Morgenthau was able to get hold of.

Mr. BLUM. I think the frustration about getting documents from people who say they're cooperating fully was pretty enormous. There would be—even in the period of the late or early fall of 1988,

there were protests yes, we're cooperating fully, and then documents we knew existed never materialized. So that was a terribly frustrating piece of business.

Senator KERRY. Now, what were these matters that you suggested you had been learning about since that the inquiry should focus on?

Mr. BLUM. Well, I should double back and mention one other thing. When the plea agreement was entered into by the Department of Justice in January 1990, I was personally infuriated.

I had taken what I considered to be considerable risk and gone to, I thought, great length to put serious evidence in front of the Department of Justice. The agents knew. The assistants well knew—well knew—that there was more to this case, and that plea agreement said, in relevant part, that the bank would not be prosecuted for matters then known to the U.S. attorney for the middle district of Florida.

The problem was that everything on those tapes were matters then known to the U.S. attorney for the middle district of Florida. I could not understand that plea agreement.

To this day, I can't understand that plea agreement and, Senator, I know you and others went to the floor to complain about it at the time it was entered, but I think I can now add a piece so that people can really understand the dimension of my upset at the time that agreement was entered into.

Senator KERRY. Please do.

Mr. BLUM. I also in that period of time heard all kinds of rumors and reports about myself, and that is a kind of awkward business to hear.

For example, I was told that lawyers for BCCI around the time of the plea agreement walked into one Senator's office, asked him to do a floor statement saying it was a great agreement, and when he said, but wasn't there some problem at Foreign Relations, wasn't there an investigator who worked on it, I was told that they said, oh, he was fired. He was running off on his own and doing things that nobody wanted done, and you shouldn't pay any attention to that.

I tried to track that down. I brought that to the attention of Senator Kerry. We didn't have a real way to get a handle on it, but it was very distressing because there were an army of people working in Washington on all sides trying to say this bank was a wonderful bank, the people involved in it were honest, good, and true people, and that anybody who said they were the criminals that I was making them out to be had to be crazy.

I think the record today speaks for itself on that subject. I think the record is also clear——

Senator HELMS. Excuse me.

Mr. BLUM. Yes?

Senator HELMS. I will direct this question to the chairman and to you. Did you make a matter of record at the time the identity of the lawyer and the Senator?

Mr. BLUM. I would be happy to share that in closed session. I have subsequently attempted to contact the lawyer. He denies it. I don't want to go into it in public session at the moment.

Senator HELMS. Well, I do not care whether he is trying to embarrass anybody or not. I am in favor of embarrassing.

Mr. BLUM. Well, I don't have enough to be sure that the anecdote is absolutely accurate, and I don't want to embarrass those people. I would be happy to tell you about it in closed session and allow you to follow up, but I think there ought to be an opportunity for the people involved to describe what happened.

Senator HELMS. I think we should, Mr. Chairman. Thank you. Go ahead.

Mr. BLUM. The areas that I think are going to open up that are still totally unexplained are, this business was a factory. This bank was a factory for the creation of falsified letters of credit.

In the last number of weeks, I've had the opportunity to go to Miami and review files, some public files in the so-called *Bilbeisi coffee* case. Those files indicate that BCCI had a very strange letter of credit business. The letters of credit only went from one BCCI bank to another BCCI bank. Instead of charging a half point, which is a normal bank rate for letters of credit, they were charging 12 points.

The letters of credit appeared to be to falsify documents to aid in smuggling, and false valuation of goods for Customs purposes. The point being that a letter of credit is sort of a basic indicia that you have paid what you're supposed to have paid and the goods that are supposed to be there are really the goods, because a bank has to check the box to make sure that the goods are the goods, and you paid what you're supposed to have paid. These people would apparently create letters of credit for anybody for anything.

It turns out that the record of BCCI in that area was brought to the attention of the U.S. attorney for the southern district of Florida by the attorney in the case being brought about that smuggling against BCCI, and he offered no response.

Further, a review of the record indicates that no effort was made to prosecute any of the people involved until an IRS agent almost at the end of the term of the grand jury himself insisted that a case be brought against the arms smuggler who was involved in it, one Munther Bilbeisi, and that has received considerable attention.

There's a story about it in last Sunday's New York Times and there's no need for me to go into detail.

One other matter that I feel is one that will come up is a matter of Third World debt. I began to hear that BCCI had gone into the business of brokering Third World debt.

That would mean that if a country had obligations that it defaulted on, was not going to repay—20 cents on the dollar perhaps would be the value—you could find the right middle man and, working through BCCI, connect with the head of the government and get them to decide that this particular debt would be paid 100 cents on the dollar, and maybe there would be a swap involved, that you would have to make an equity investment in the country, but if you worked with BCCI, the equity investment would be announced but never made, and BCCI would illegally handle the conversion of the currency.

That, I think, is very major business. I think it runs to billions of dollars, and I think the people working this have been so immersed in the internal fraud of the bank they haven't begun to look at

nondeposit loan relationships or beyond straightforward arms dealing and money laundering.

Senator KERRY. Mr. Blum, we now have records which will subsequently be forthcoming on BCCI and the swaps with a number of central banks, and there is evidence—you are familiar with the situation in Peru and other countries. You might want to talk a little bit and give members a sense of what this really means.

Mr. BLUM. Well, the people I talked to at the bank would say, this was a bank that was very strange, because it needed deposits all the time, and if you're running a Ponzi scheme you need more and more cash in to support the whole system of fraud that you've generated.

What it meant was that BCCI people would go out and bribe central bank officials and high government officials to get them to deposit their country's foreign exchange at BCCI, and in exchange for whatever amount of money, suddenly the foreign exchange reserves of a country would be put there and put to use, and I am assuming that once these relationships developed with the people who controlled the central bank, the issue of debt equity swap and Third World debt became a very simple matter.

There are other issues that are very much unresolved. People repeatedly told me that this bank was a product of the Afghan war, and people who were very close to the Mujahadeen have said that many of the Pakistani military officials who were deeply involved in assisting and supporting the Afghan rebel movement were stealing our foreign assistance money and using this bank both to hide the money they stole, to hide and market American weapons that were to be delivered that they stole, and to market and manage the funds that came from the selling of heroin that was apparently engineered by one of the Mujahadeen groups.

This is an issue that has largely been unexplored in public. It's an issue that should be. It's a major issue of oversight.

Senator HELMS. Now, Mr. Blum, in executive session, are you prepared to give us those names of the people?

Mr. BLUM. Yes, indeed, and indeed, I have given some of those to the Department of Justice at length, and again, some of it is in memoranda in your possession.

Senator HELMS. Well, I think we ought to finish this loop in executive session, because you are getting down to it.

Mr. BLUM. I'll be happy to come back to do that, because I know you have a very heavy schedule.

But you know, the other areas here are, this organization apparently—and I talked to one of the people who said it was part of what they called their black unit—served as a Federal Express service for the delivery of various things, and as he described it, that was weapons, drugs, arms of different kinds, and gold and currency, for anyone who wanted it, wherever they wanted it delivered. What he said tied back to other things people at this bank had told me.

I think that the Department of Justice now has the obligation to carry forward with the case, and I am certain, based on what I've heard, that there are a lot of people working on it.

I should return to one aspect of the case which I think people would want to know about. That is, the discovery that CenTrust, a bank in Miami, was a virtual subsidiary of BCCI.

Senator KERRY. What was that, I am sorry? I missed that.

Mr. BLUM. CenTrust, a large savings and loan in Miami which failed, left the taxpayers with a $2 billion hangover, was a subsidiary of CenTrust.

That may not have been the only S&L subsidiary of CenTrust. CenTrust was involved in a wide range of dealings, and in those dealing's appears to have had contact with people at other S&L's through Independence Bank in Encino, and this is an area that requires substantial further investigation.

Senator KERRY. Jack, let me just ask you, because you have raised a question and I have said let the chips fall where they may in this thing, and I am going to do that. It is a matter of record that I knew David Paul previously when I was chairman of the Campaign Committee. That is a matter of fact. The question I ask you, and you are under oath, is when did you first learn of any linkage between BCCI or CenTrust?

Mr. BLUM. As I left the committee in March 1989.

Senator KERRY. 1989?

Mr. BLUM. 1989, and you will recall I told you when I found that out, and told you about it.

Senator KERRY. Correct.

Mr. BLUM. I recall your shock.

Senator KERRY. Now, with respect to—well, I don't want to cut you off if you were going to finish on one other aspect, but I would like to try to get in some questions.

Mr. BLUM. Well, I think the subject is so wide and difficult, I think it would be useful if I simply stopped talking and turned to questions, because there are different aspects of this, and I'm prepared to try to answer as much as I can as you feel it necessary.

[The prepared statement of Mr. Blum follows:]

PREPARED STATEMENT OF JACK BLUM

Mr. Chairman and Mr. Ranking Members, and distinguished members of the Committee: Thank you for giving me the opportunity to testify before the Subcommittee today about my involvement in the investigation of BCCI.

When I left my job as Special Counsel to the Foreign Relations Committee in March of 1989, BCCI was the most important piece of unfinished business I left behind. I am delighted that this business is finally being finished.

What I propose to do this morning is to review the chronology of the BCCI investigation, outline what I learned, and detail the steps I took to bring the case to the attention of the Department of Justice. It is my understanding that the Subcommittee has released the memos I wrote about the investigation at the time it was in progress. Those memos will add substantially to a full understanding of what occurred.

In all, I have worked for the Senate for 14 years. My first employer was Senator Philip Hart of Michigan. Six of those 14 years were with the Foreign Relations Committee—first from 1972 to 1976 and then from 1987 to 1989. My first work with Foreign Relations was with Senator Frank Church on the investigation of Multinational Corporations. The subcommittee he chaired, and to which I was assigned, investigated ITT's role in Chile, multinational oil companies, international banking—including the *IOS/Vesco* case, and the Lockheed foreign bribery affair.

My first contact with BCCI came in private practice in the early eighties when a client of mine tried to do a business deal with a BCCI affiliate. In the course of seeking financing we learned to our amazement that major American banks refused to accept BCCI letters of credit. My client sought a different business partner.

I returned to the Foreign Relations Committee after a 10 year stint in private practice in early 1987. My agreement with the Chairman at that time was that I would work on the investigation of drug law enforcement and foreign policy which he proposed for 2 years.

My knowledge about BCCI's reputation remained dormant until the day Jose Blandon testified about General Noriega's "criminal empire". He identified BCCI as part of that empire and told the subcommittee that BCCI was central to his operations.

When I heard BCCI's name mentioned I tracked down a senior BCCI executive who was then in the process of leaving the bank. He told me the bank was in business to service roughly 3,000 criminal clients in addition to General Noriega, and that the rest of the bank's operations were a cover for this, its central business. Based on his information which I memorialized for the Committee, the Committee voted to subpoena the bank's records in March, 1988.

Before the subpoena was issued I called the prosecutors handling the *Noriega* case to be sure that the action we were about to take would not interfere with the Department's ability to trace Noriega's money. As a result of the call I was told that there was an undercover operation under way and the Department formally requested that we delay service of process.

In March of 1988 I called Joe Maigre, the Deputy in the Tampa U.S. Attorney's office and told him that we knew that BCCI was Noriega's banker, we knew who was handling the money and we knew where the records were. He arranged a conference call with all the agents in the undercover operation. I briefed them fully on what I knew.

In July of 1988 the Justice Department informed us that they no longer objected to the subpoena for BCCI. I drafted, and the chairman signed the papers.

While we were waiting for the return of service I was contacted by another former BCCI officer, Ali Akbar who offered me further information about BCCI. Specifically he told me that the bank had a "capital problem" and that its accounts were less than accurate. He also arranged to have me meet with Amjad Awan. Awan provided more information.

Messrs. Altman and Clifford appeared as BCCI's lawyers and requested a 30 day extension on the subpoena. It was granted. They also said they represented Awan and that Awan could not testify because he was transferred out of the country. I knew better because I was talking to him.

In October, I deposed Mr. Awan, who was then represented by separate counsel, this was done without the knowledge of Mr. Altman. At the same time a bank insider called to tell me that documents were being destroyed at BCCI's Washington office. Unknown to me, Mr. Awan was making similar statements about obstruction of our investigation to undercover Customs agents.

Unfortunately, no one from Justice ever advised me of this fact.

At the same time we were hearing about the destruction of documents Messrs. Altman and Kovins were assuring us that they would cooperate fully and that they were totally surprised by our suspicions.

In October, after the Tampa arrests, we were contacted by another BCCI ex-employee who told us of the use of the Miami office for drug money laundering and of his fruitless efforts to get the Federal government to act. His testimony and Awan's testimony are part of the Subcommittee's printed public record.

Ultimately, in March, 1989, I arranged with agents of the Customs service to have a hotel room in Miami wired. Through a mutual friend I arranged to have a senior former official of the Bank, a man close to Abedi, the banks' chairman meet me. We talked for about 10 hours over a 3 day period.

He laid out the entire story. It included BCCI's ownership of 1st American, the lack of capital, the loan and stock transactions and the stealing by insiders. I persuaded him to become a government witness and flew with him to Tampa. I introduced him to the Assistants on the case and was assured that they would follow up.

Two weeks later I did the same thing with a second witness.

The witnesses and the agents continued to talk to me and it became apparent that little or nothing was being done to follow up on the allegations. When I realized that I went to the New York county District Attorney, Robert Morgenthau. His investigation began with the same evidence and the same witnesses the Federal government had in its possession.

I was personally outraged by the government's January 1990 plea agreement with the bank which included a clause barring further prosecution for "matters then known by the Department of Justice". The agreement precluded the use of the material I had furnished the Tampa team in any further case against the bank.

Drug dealers need money launderers. BCCI was the biggest of the launderers. On the day it was finally closed in the United States, the money on deposit here totalled over $900 million. My guess is that little of that was legitimate. The people who protected this bank on all levels must be held accountable—at least as accountable as the street dealers, and the "kingpins" who face the death penalty under recently passed legislation.

I will be pleased to answer any questions you may have.

Senator KERRY. Let me ask you an additional question, if I can. Mr. Von Raab, Mr. Blum has described his reaction with respect to the plea agreement and you expressed something with respect to it. Were you in concurrence with his judgment on that agreement at that time?

Mr. VON RAAB. I think it was a shameless agreement. It had a number of terrible aspects. First, before the plea agreement, the international banking community had begun to recognize that BCCI was a pariah, if not a criminal enterprise. They were beginning to stop doing business with BCCI in many cases, and so the dynamic was such that BCCI was basically being spurned.

When the plea agreement was made, that dynamic was turned around and BCCI was not exactly welcomed back into, but it reappeared as an accepted part of the international banking community. It was a disaster in terms of the punishment that should have been meted out to both the officers of the bank and the bank itself.

The amount, the fine that was levied or the asset forfeiture, depending on how technical you want to get, was only about $15 million, which was actually less than the bank had made from its money-laundering activities. And so the bank didn't even have to return to the American taxpayer its profits from the illegal activity.

Now admittedly, this, in relative terms was a big fine, but it was only with respect to other banking fines, but no one had ever seen a crime quite like this. So I mean, the Federal Reserve's suggestion of $200 million is probably closer to the mark, although I suppose the real punishment for BCCI should be maybe in the billions of dollars.

Mr. BLUM. If I could interrupt, just for a second, my understanding is that that $14 million was not even the bank's money. It was the profit that the agents had created in the drug deals.

Mr. VON RAAB. That is what I am saying. It was the profits.

Mr. BLUM. It was the profit from the drug dealing.

Mr. VON RAAB. Then obviously the individuals who were really responsible, that is the higher level officials who promoted the policy weren't touched by this exercise. They weren't punished and then last and no one knows the problems that this would cause and that is, that the U.S. attorney in Tampa, the middle district of Florida basically had his arms tied with respect to any further prosecution of the bank for those matters of which he had knowledge.

So I mean, it was a real triumph by the Washington power broking establishment. I mean, we talk about a black unit within the bank itself, I mean, there is a gray unit in Washington that was working this case for all it was worth.

And let me tell you, whatever the Washington brokers got for their involvement in protecting BCCI against the Federal Government, they earned every million dollar that they received.

Senator KERRY. Now, Mr. Von Raab, I have asked some questions as we have gone along. I want to get my colleagues into this.

I just want to ask you one other area and then I am going to pass the baton here, but with respect to the CIA memo, how did you come to see that memo and what were the circumstances under which you——

Mr. VON RAAB. Thank you for asking this. This issue has come up so many times. When I was preparing in the final stages of the investigation to announce the *BCCI* case, and I wanted to get more information about BCCI, both for my own purposes as Commissioner of Customs and also to answer questions responsibly to the press, I rang up the agency. I rang up Bob Gates.

And I told them what we were doing and I asked him what he knew about BCCI and he quipped that it was known among his colleagues, the agency, intelligence services as the bank of crooks and criminals international.

And that he said that he was certain that the agency had some——

Senator KERRY. When was that? What was the date?

Mr. VON RAAB. This would have been September or October 1988. It would have been sometime, a short time before the takedown.

Senator KERRY. Before the takedown.

Mr. VON RAAB. And I don't remember exactly what it was, but it was a telephone conversation. It was not a person-to-person meeting and it was a spontaneous act on my part. I am not an old friend of Robert Gates.

Senator CRANSTON. Can I interrupt? You started to say, he said the agency had some, and then?

Mr. VON RAAB. Yes, I am sorry. I was backing up. And so he provided me, he said I will send you a piece that we have done on BCCI, and shortly thereafter came over to the Customs intelligence unit, which was typically the way agency documents would be passed over, I don't remember it that well, but a five- to seven-page paper produced by the agency, typical, first-call agency printing job, that described sort of the origins of the bank, its MO.

Who they thought the owners were at the time and characterized it in terms that implied that certainly it was involved in lots of questionable or at least criminal activity.

It didn't prove to be particularly useful to us as an investigative tool. It was useful to me because I got a sense of when the bank was formed, what its corporate structure was and although I think the information was probably somewhat inaccurate in terms of who the owners were, it gave me a sense of the type of people that owned the bank, should I have been asked that question.

And that was the complete loop with respect to the now famous conversation between Bob Gates and me with respect to this memo and his knowledge, as he told it to me of BCCI.

Senator CRANSTON. Did he say anything about the agency's relationship with BCCI?

Mr. VON RAAB. No. There was no—I didn't ask him about it and he didn't tell me about it.

Senator KERRY. Senator Helms.

Senator HELMS. Let us get back to the British Customs seizure of a large amount of BCCI documents. What can you tell the committee about what happened to those documents and the relations between the Treasury Department and Customs, relative to those documents?

Mr. VON RAAB. Yes. Well, as part of Operation C-Chase, the British Customs Service served warrants on the bank's offices in London and collected a fair amount of documents.

The U.S. Government, meaning the Customs Service very much wanted those documents to further its prosecution in Tampa. We made those requests. We were aware, because of comments that had been made by British Customs agents to U.S. Customs' agents that among other things there was information in those files about Noriega. That obviously made it even more interesting and exciting.

The documents were subject to a number of lawsuits in Great Britain in an effort made by BCCI to prevent the documents from being given to the United States. As the lawsuits progressed, the final result was that the documents were turned over the United States through the Customs Service.

However, some time before the documents were turned over, I was prohibited by the Treasury Department from receiving any of these documents. The documents were sealed up by my own Customs' agents. I will admit that they did manage to pull one or two or three documents which they gave to me as a sort of sentimental favorite, which did describe in some minimal detail Noriega's, at least, some accounts he had.

But the bulk of the documents, which were substantial, I mean, there were boxes and boxes and boxes, were loaded up, sealed with some sort of duct tape, what have you, and were sent directly to the Treasury Department; and I was, although I was not told personally, the agents were told that I was not to have any information on the *BCCI* case and that was the period in which I was actually cut out of the case and that was some time before I left the Treasury Department.

Senator HELMS. The staff has just handed me a photostat of a speech I made on the Senate floor on October 14, 1988, in which I discussed what you had been doing.

Mr. VON RAAB. I wonder if that speech did me any good or whether it was bad for me.

Senator HELMS. It probably hurt you, which was not its intent.

All right. Now on this September 1986 CIA document, there was a report this morning, I believe it was, that Treasury was on the distribution list. Is that right?

Mr. VON RAAB. There was a regular routine scheme in which various intelligence documents were circulated among the so-called intelligence community, which were certain departments and certain agencies.

Without confusing the issue too much, the Customs Service was not "in the intelligence community" because the Treasury Department was. And that meant that any highly classified documents were given to the Treasury Department and it was its job to refer them to the Customs Service if they felt it was of interest to the Customs Service.

Which meant we couldn't get documents on a routine matter from the agency. We could ask for them, but they always went through the Treasury Department. So it is likely that that document would have been given to the Treasury Department in a normal course of business. Whether it actually was received by Customs, I don't know the answer to that because some of the documents that Treasury got, it didn't pass on to the Customs Service.

Senator HELMS. Willie Von Raab didn't get it from Treasury?

Mr. VON RAAB. I didn't receive that document from the Treasury.

Senator HELMS. Willie Von Raab got it from the CIA.

Mr. VON RAAB. I got it directly from the CIA, that is right.

Senator HELMS. That is the point. Somebody had been screening what the Commissioner of Customs is going to see.

Mr. VON RAAB. Yes. Without implying anything sinister, there was a screening process. They regarded it as administrative in nature, but they could make a judgment as to what Customs would see.

Senator HELMS. Let me ask you, I am not asking you to toot your own horn, and I know the answer to this, wouldn't it be fair to say that Customs and not the Department of Justice came up with the idea of Operation C-Chase? Didn't that come from you?

Mr. VON RAAB. Well, you are forcing me to be somewhat parochial, but in any Federal prosecution there is an investigative agency and the Justice Department prosecutes the case. The investigative agency could be the FBI. It could be DEA. It could be Customs.

In the case of Operation C-Chase, the sole investigative agencies were the Customs Service and the IRS. Any involvement of any Justice investigative agencies was purely a matter of assistance, maybe serving a warrant one day or what have you.

The operation was conducted under the supervision of an agent, a woman by the name of Bonnie Tischler in Tampa and the involvement of the Justice Department in the BCCI investigation in Tampa was solely as a prosecuting arm.

Now that is significant, but Customs and IRS were the supportive investigative agencies. And so in law enforcement parlance, this would have been called a Customs case and if anyone had suggested that this was a Justice Department case, they would have been punched out by the Customs agent that was working on it.

Senator HELMS. I just wanted to get that on the record.

Mr. VON RAAB. So that is how it works.

Senator HELMS. Now while I went over to vote, I was filled in on your discussion about the phony wedding sting operation.

Mr. VON RAAB. That is right.

Senator HELMS. Now didn't the Customs officers risk their lives in doing this?

Mr. VON RAAB. There is no question but that the nature of the drug traffickers involved, the level of money, influence, power that all of the Customs agents who were undercover were risking their lives, because the people they were playing with were mean, tough, and had killed people before and would they had found out what was going on, they would have certainly thought about killing the agents. There is no question they were risking their lives.

Senator HELMS. They arrested the crooks at this so-called bachelors party and it is not a fact that it was a Customs officer, not the FBI, who arrested the BCCI money launders?

Mr. VON RAAB. All of the arrests that took place in the hotel which was the putative site of the bachelor party were made by Customs officers with some IRS officers as well.

Senator HELMS. Right. But it was the Customs officers who seized the BCCI documents, right?

Mr. VON RAAB. That is correct.

Senator HELMS. And when it was all over, did not Customs turn the defendants and the seized materials over to the Justice Department in one little neat package for prosecution? Isn't that about the size of it?

Mr. VON RAAB. In the simplest, but accurate terms, all of that information would have been turned over by Customs to the Justice Department by virtue of its working with the U.S. attorney's office who would receive all of these documents.

Senator HELMS. Now Mr. Blum, you figured into this thing too, and you interrupt and fill in anything that I am leaving out.

Now there were the bond hearings for these BCCI defendants in the *Tampa* money-laundering case in 1988, right?

Mr. BLUM. That is right.

Senator HELMS. And the assistant U.S. attorney stated that the defendants had bragged in secretly taped conversations and you know all about that, that they had the approval of BCCI's board of directors to engage in money laundering of drug profits. Is that correct?

Mr. BLUM. Now those tape recordings, and this is something that I would like to make very clear, there are two different sets of tape recordings.

One is the set of tape recordings made by the Customs undercovers in the course of the investigation. Those tape recordings ended at the time of the takedown. They were no longer meeting with them and recording.

Those tape recordings make some of the most interesting reading you will ever pick up, because what you get is the people that this committee serve subpoenas on talking to the Customs agents about what they are going to do about our subpoena and what they are being told by their lawyers.

And if you read that tape you will find that Amjad Awan says to a Customs undercover that he is being advised by the BCCI lawyers, in this case, Robert Altman, that he is going to leave the country for Paris, never to return so that he does not have to answer the subpoena and talk to us.

Senator KERRY. Would my colleague yield for a moment?

Senator HELMS. Sure.

Senator KERRY. In the affidavit which will be made a part of the record and I will label these, we will leave the record open for labeling so they are in consecutive order. But the affidavit signed by David Burris, who is the special agent with the IRS that you are referring to, said in his affidavit said, quote: "Your affiant believes the following statutes have been violated based on the information in this affidavit: Title XXI, United States Code, Narcotics Conspiracy; Title XVIII, United States Code, General Conspiracy; Title

XVIII, United States Code, Financial Transaction Money Laundering; Title XVIII, United States Code, Transportation Money Laundering; Title XXI, United States Code, Using a Communication Facility in the Process of Committing Another Offense; Title XXI, Travel Act; and Title XVIII, United States Code, Obstruction of the Senate Investigation."

And there were subsequent paragraphs referring specifically thereto.

[The information referred to follows:]

FFIDAVIT

Sept, 1988

:, David H. Burris, have been duly sworn, states as follows:

Your affiant states that the facts stated in this affidavit are personally known by your affiant or personally told to him by individuals identified below.

I have been a Special Agent with the Criminal Investigation Division of the Internal Revenue Service for 11 years. For the past 7 years I have been assigned to investigate narcotics money laundering cases jointly with the U. S. Customs Service.

I have been assigned to an investigation referred to as Operation C-Chase since July 1986. This investigation has involved the U. S. Customs Service, the Internal Revenue Service Criminal Investigation Division, the Federal Bureau of Investigation, the Drug Enforcement Administration and authorities in the United Kingdom and France. The investigation has utilized a U. S. Customs Service undercover operation to gather evidence against numerous individuals and corporations. I have been assigned as the Internal Revenue Service case agent since the case was initiated. In that capacity I have become personally familiar with the evidence described in this affidavit and have summarized that evidence herein. Since this affidavit is made for the limited purpose of obtaining a search warrant, I have not set forth each and every fact learned during the course of this investigation.

Your affiant believes that the following statutes have been violated based on the information in this affidavit:

a. Title 21, United States Code, Section 846 (Narcotics conspiracy)

b. Title 18, United States Code, Section 371 (General conspiracy)

c. Title 18, United States Code, Section 1956(a)(1) (Financial transaction money laundering)

d. Title 18, United States Code, Section 1956(a)(2) (Transportation money laundering)

e) Title 21, United States Code, Section 843(b) (Using a communication facility in the process of committing another offense)

f) Title 21, United States Code, Section 1952 (Travel act)

g. Title 18, United States Code, Section 1505 (Obstruction of a Senate investigation)

The following information relates to financial transactions conducted by a banking system, a financial service company and others, and undercover contacts with officers of the banking system, the financial service company and others. Almost all conversations with the officers and others were tape

(12)

a) AWAN says BCCI will not backdate documents to allow Musella to receive the $725,000 (e59) frozen in his Panamanian account because they fear losing the bank's charter in Panama if the backdating is discovered by a new government.

b) Musella told AWAN that a lot of South American clients are flying money out of the U. S. to Colombia where they are later using the cash to pay people in Bolivia and Peru who are actually "involved in cooking their stuff".

c) AWAN said that BCCI and five other banks are being scrutinized by a U. S. Senate subcommittee because of matters arising from the NORIEGA indictments. AWAN says that he personally will be looked at because he was the Manager of the Panama branch when the American (Steven KALISH) says he was doing business with Noriega and had dealings with BCCI. AWAN said he doesn't recognize KALISH, but it is possible he could have done business with him. BCCI found out about this investigation because they have friends who are close to the Subcommittee's activities.

d) AWAN said that BCCI has bought and controls First American Bank and National Bank of Georgia through private individuals. The banks were bought through individual names rather than BCCI because BCCI could not buy the banks and run them due to U. S. law. Former Secretary of Defense, Clark CLIFFORD, is one of the persons who is working on behalf of BCCI to gain control of these U. S. banks.

e) Musella tells AWAN that one of Musella's Colombian clients, Jorge OCHOA sent NORIEGA a coffin with a note. The note said that if the OCHOA's lost any of their money in Panama, NORIEGA would be needing the coffin.

71. On March 29, 1988, Musella and Amjad AWAN had a conversation in a limousine in New York City. That conversation included the following:

a) AWAN said that the stock of BCCI is privately held, primarily by groups of individuals based in the Middle East. The biggest block of stock is owned by the Pakistani group of which AWAN is a member. About 20% of BCCI's stock is owned by a Saudi group.

b) The president of BCCI had a heart attack about a month ago. He had his heart attack a few days after AWAN spoke with him in New York concerning, among other things, BCCI's activities with General NORIEGA. AWAN went to New York after travelling to London to give the BCCI board a full report concerning the bank's transactions with NORIEGA.

c) Last March, AWAN and several of his banking associates spent several days in Las Vegas with General NORIEGA.

72. On March 30, 1988, Musella and Amjad AWAN met in Room 1005 at the Sherry

directors concerning Saintsea Shipping Limited and Berens Limited.

b) BILGRAMI advised Musella to close the Saintsea account at BCCI Paris becaus the Panama BCCI Saintsea account is in a risk position because checks on that account are given to Musella's clients.

c) Musella explained that one of his clients generates $50 million per mo BILGRAMI asked Musella if it didn't bother him that he dealt with these individuals because BILGRAMI knew them or suspected them to have rather difficult dispositions.

154. On September 8, 1988, Musella met with Akbar A. BILGRAMI at the Mia BCCI office located at 1200 Brickell Avenue. BILGRAMI furnished Musella the original articles of incorporation and particulars of directors whic Musella had provided to BILGRAMI the day before.

155. On September 9, 1988, Musella met with Amjad AWAN at the Grand Bay Hotel in Miami, Florida. They discussed the following:

a) AWAN said that BCCI had received three separate subpoenas from the U. S. Senate Subcommittee. The bank received a subpoena for records of all transactions conducted on behalf of Panamanian corporations. AWAN said that he had been subpoenaed individually as had Mr. SHAFI (the General Manager of the Latin American Division of BCCI). AWAN said he believed he had been subpoenaed because of his former association with NORIEGA.

b) AWAN said that the bank and its attorney, Clark CLIFFORD, advised that AWA should be transferred to Paris to slow down the Senate investigation. AWAN said that he could hurt the bank badly if he were to fully cooperate, but he will not.

c) AWAN said that he will speak with a friend of his in Panama in an attempt to remove all but the most essential records of Musella's account activity at the Panama branch of BCCI because of the Senate subpoenas.

156. On September 15, 1988, $63,010 in U. S. currency was picked up in Miam Florida from Juan TOBON (Transaction #102, hereafter: #102). This currency transported to Tampa, Florida by government agents and deposited to the FNB account in St. Petersburg, Florida. A total of $63,480 was transferred into Barkeville Limited account at BCCI Panama by check drawn on the FNB account. September 16, 1988, Musella was given $1,000 in currency, $2,000 in traveler checks, and was told that TOBON's funds had been converted to pesos on the "black market" in Colombia. These pesos were transferred to the account of Jairo TOBON (TOBON's brother), account #350010542 at Banco Ganadero Sucursal Poblado as follows: a check was issued against account #039-27588-8 of Judi

Senator HELMS. Mr. Blum, I want you to repeat carefully and slowly what you said about Mr. Altman and the statement about leaving the country for good.

Mr. BLUM. Well, this was what Mr. Awan told me about what he was being advised by the BCCI attorneys——

Senator KERRY. Would it be more helpful——

Mr. BLUM. The transcript——

Senator KERRY. The transcript speaks for itself and that has been released to the public.

Mr. BLUM. But in addition——

Senator HELMS. Excuse me, Mr. Chairman, but this is a lot better than a transcript, to tell you the truth. It will get people thinking about it. You go ahead.

Mr. BLUM. Both the transcript and my conversations with Awan, he repeated the same thing, which was he was being advised to leave the country, go to Paris, and stay out of reach so that we would not be able to serve a correct subpoena on him and he would not have to testify.

Senator HELMS. Advised by whom?

Mr. BLUM. By his attorney and the people representing him at that time, and they said they were representing him——

Senator HELMS. Who was——

Mr. BLUM. Robert Altman and his partner, Mr. Kovins and of course, the senior partner in the firm, Mr. Clifford.

Senator HELMS. Mr. Chairman, I am going to finish up. I need another minute or two.

Now I want both of you to tell me why you think the Department of Justice accepted this minor plea bargain and did not assign a task force to prosecute aggressively the higher officials of the BCCI?

Mr. VON RAAB. That is part of the larger question which this committee is trying to drive at and why not much happened and why didn't much happen for 3 years.

Senator HELMS. Thank you.

Mr. VON RAAB. So the first indication that not much was happening was this bad plea bargain. I believe that it was a combination of a general softening of resolve in the senior U.S. officials by the incredible pounding they were taking.

The result is that senior U.S. policy level officials were constantly under the impression that BCCI was probably not that bad because all these good guys that they play golf with all the time were representing them.

Second, the Justice Department was very, very concerned about its Noriega prosecution. They wanted the best evidence they could possibly get to prosecute Noriega. It was believed that BCCI was a repository for great evidence against Noriega and if you look at the plea bargain you will see that one of the parts of it was a cooperation by BCCI with respect to providing cooperation to get evidence that may have been in BCCI against Noriega.

I believe that the Justice Department was blinded by that possibility and they saw the case much too much as a place to collect evidence in another case and this was compounded by just a lackadaisical and sort of worked over, tired Treasury Department and Justice Department that resulted from the constant pounding it

was receiving from the influence peddlers who either had been flattered, bought, or were just plain on contract by BCCI.

Senator HELMS. I noticed you were nodding your head.

Mr. BLUM. I should say that the way I described——

Senator KERRY. May I just say, before you answer the question, let me just ask you this, has Noriega been indicted for money laundering?

Mr. BLUM. As far as I know that is not one of the counts.

Mr. VON RAAB. They didn't get much out of this agreement with respect to BCCI, and so that was a——

Senator HELMS. I do not know why I am laughing, it is a tragedy.

Mr. BLUM. The description I would give of what happened was high price anesthesia. What happened was, everybody was hired and we know understand the bill for the legal defense of the *Tampa* case, which included a guilty plea by the bank to all but one count and convictions for all of the individual defendants totalled $35 million.

Senator KERRY. Mr. Blum, with respect to those five defendants, is it your understanding—do you know, not your understanding, but do you know whether or not their legal bills were paid for by the bank?

Mr. BLUM. All of the individual defendants' legal bills were paid for by the bank.

Senator KERRY. So the corporate entity got away and the five individuals had $35 million worth of legal bills paid for by the bank.

Mr. BLUM. Absolutely.

Senator KERRY. Were there some condos involved or something?

Mr. BLUM. Well, now what happened was the individual defendants never spent much time in jail prior to their conviction. The bank arranged to have them live in a condominium in Tampa which were procured by the bank and they were under guard by local police in Tampa who were off-duty policemen.

And that kept them out of the prison culture where they would have quickly come to understand that the only real out for a guy in the position they were in is a plea bargain, and as a result, it is my understanding, and I have heard this from a number of people connected with the case, although I cannot say it is firsthand knowledge, that there was never a serious effort to plea bargain the individual defendants.

I do not personally buy the *Noriega* case theory. The *Noriega* case theory to me is one that does not hold up, because after all you had the bank. You had the records, but moreover, we, this committee, told all the people involved about General Noriega and who his banker was in March 1988, and no one followed up on that information.

I find it very hard to figure out why they are disinterested in 1988, in the spring, but so interested in January 1990 that they give everything else away with respect to the bank.

Senator KERRY. Senator Pell. Let me say first, there is a vote on. I understand we have back-to-back votes. We have another witness from the Federal Reserve and I have the Banking Committee markup. So we are running into problems. But, Senator Pell.

The CHAIRMAN. Thank you very much, Mr. Chairman. I appreciate tremendously the kind remarks you made during your opening statement.

And as you said, I was reluctant at first to authorize the investigation that you requested early in 1987. I was uncomfortable at that time with the idea of departing from the committee's traditional role of overseeing foreign policy, getting into investigations of criminal activities which were properly under the purview of other committees.

I was persuaded though that the foreign policy implications were so compelling that we approved the investigation, and provided substantial staff and resources.

I congratulate you for your hard work in unearthing activities that are troubling to all of us, and hopefully this hearing and ones to follow will help to achieve that goal and I look forward to being of any help that I can as you move into this cesspool and trying to clean it up.

Senator KERRY. Mr. Chairman, I really appreciate that. I want to thank you and Gerry Christianson. I know you have taken some flack on occasion for some of the salesmanship that Jack Blum referred to in the city, and I appreciate the fact that you have allowed this committee to do this. Senator Jeffords.

Senator JEFFORDS. Thank you.

Mr. Von Raab, I am sorry. I missed your testimony. I just dropped in on this committee, and so I am trying to get into the middle of things.

There is one comment that you made with respect to the plea, that the USDA down there had its hands tied by the agreement and the power brokers in Washington, DC.

I wonder if you would amplify what you meant by that.

Mr. VON RAAB. Well, as part of the agreement they basically agreed not to prosecute the bank or the individuals for anything that was—I am not sure what the exact words were, but anything which the U.S. attorney there already knew about.

And that was a lot. I mean, most of the documents were there. And it is not an unusual agreement, where you really have finished off an investigation and you are trying to tie up loose ends and you are getting some meaningful cooperation.

But it was unbelievable, considering all of the loose ends and possible directions in which this could go to agree to exempt from the prospective scope of any investigation or prosecution all of the information that was available or was known to the U.S. attorney there.

It is once again a tribute to the influence team that was marching up and down the Eastern seaboard helping BCCI keep its neck off the block.

Senator JEFFORDS. Were they just pushing their influence peddling in Washington or did they also——

Mr. VON RAAB. No, there was a team in Tampa as well. They were Washington lawyers, but they were operating there.

Senator JEFFORDS. Do you remember any of the lawyers names that were there?

Mr. VON RAAB. I cannot give you, maybe Mr. Blum knows who were actually down negotiating the plea agreement. But it is all the same crowd.

Mr. BLUM. I think to give you the flavor of how much was given away in that agreement——

Senator KERRY. Let me ask you a question, were any former Justice prosecutors involved in that lawyering team?

Mr. BLUM. I believe there were a number of them. One of them was Larry Barcella for the bank; John Hume for Amjad Awan, but I really don't know the full range of people who were involved.

Mr. VON RAAB. If you were to get BCCI's roladex for its influence peddlers, you would have the blue chip list of Washington influence peddlers.

Senator KERRY. Let me ask you something, sort of getting at that, and I apologize to my colleague.

Senator JEFFORDS. That is all right, follow it up.

Senator KERRY. I hate to say this, but what is unusual about that? I mean, doesn't every big corporation come to Washington and hire the biggest and best and hire people who can get them what they need?

Mr. VON RAAB. I don't know what is unusual about it. I was in my office when a friend of mine from Hill & Knowlton came to me and he said, Willie, he said, BCCI wants to hire Hill & Knowlton and they want me to work on it.

And he said, what should I do? And I said, don't work on it, it is a sleazy operation. Well, the result was, Bob Gray and Frank Mankiewicz worked on it. My friend left Hill & Knowlton.

So, it should not happen, and I think that the nature——

Senator KERRY. Let me ask you a further question. I agree with what you said, but, and here is the but, what if others didn't ask you that question or had not sort of asked that and therefore didn't know and along comes a big bank, but they aren't privy to the investigations. They aren't privy to the insider reports. They aren't privy to anything you knew and hadn't had the good fortune to ask you.

So along comes a client and they ask, gee, this is a big client. It is a big bank. It is all over the world. Why shouldn't we represent it? I am just trying to flesh this out a little bit.

Mr. VON RAAB. It happens all the time. It should not happen, and maybe the *BCCI* case will be the example that will cause someone to change this influence peddling culture, to try to ask some reasonable questions of the integrity of the people that they are going to be representing.

I have no problem with someone representing a company on a policy issue, but this is a criminal matter involving really, really bad conduct.

Senator KERRY. What you are really suggesting is a kind of due diligence standard that needs to be exercised, is that correct?

Mr. VON RAAB. I think so, yes.

Senator KERRY. I am sorry. I thank my colleague.

Senator JEFFORDS. Who was running the showdown in Florida from Justice?

Mr. VON RAAB. The U.S. attorney is a fellow, was a fellow by the name of Bob Genzman, who was new on the scene. He had just

come out of Washington and so he was the titular sort of head of the operation.

Senator JEFFORDS. He wasn't the district attorney.

Mr. VON RAAB. He was the U.S. attorney for the middle district. He was the Federal prosecuting, senior prosecuting attorney for the middle district of Florida. He reported directly, in effect, to the Attorney General through the normal staff procedure.

But as a practical matter, the Customs Service was running the investigation up until the point that the arrest took place and then the U.S. attorneys office more or less took over the lead.

Senator JEFFORDS. Mr. Blum.

Mr. BLUM. Senator, the failure is not limited to the U.S. attorney's office in the middle district.

Senator KERRY. Mr. Blum, let me just interrupt you for a second to say that I am going to go vote. Senator Cranston apparently is going to stay through that and he has some questions and then I will return. Excuse me. I will ask them to hold the vote for you, Senator.

Mr. BLUM. To finish, there are failings as well in the southern district of Florida. The southern district has been aware for at least 14 months, possibly longer, that CenTrust, the very large S&L, $2 billion down the hole, the president with a yacht as large as a destroyer, an office worthy of the Emir of Kuwait, this was a subsidiary of BCCI, illegally.

That case has been in the hands of the U.S. attorney for the southern district of Florida, there is yet to be an indictment.

Senator CRANSTON [presiding]. Which case is that? Would you repeat that?

Mr. BLUM. That is the case involving CenTrust and the illegal ownership of CenTrust, of which David Paul was president by BCCI. They have known all about this. We are now well over a year and some into it. The Fed was able to put it together. I certainly heard about it and figured it out.

Everyone else who has looked at the records of a perfectly public, private lawsuit has been able to figure out. Where are the prosecutors? I can't understand it. Are there more important cases in the southern district than a $2 billion S&L fraud tied to this criminal mess? What he is doing?

When in the southern district, again, this smuggling case involving Bilbeisi was put directly to the U.S. attorney in 1989. Nothing was done. And the only way something happened was when IRS on its own pressed the matter and the public record shows that.

Someone should be asking the IRS what they went through to get that case on the table. I would call the IRS agent and say, what were we up against?

Senator JEFFORDS. Your testimony is terribly disturbing from both of you and I have got to run over and vote. I think I am a cosponsor of this amendment, Mr. Chairman. So maybe you can pursue this line. I will be right back.

Senator CRANSTON. Mr. Blum, I want to say first that I admire your courage in taking the risk that you took, knowing that the sort of people you were investigating wouldn't like what you were up to.

Was there any time when you felt that you were under surveillance or that others working with you were under some sort of surveillance?

Mr. BLUM. Well, the most recent period has been the most interesting. I have a telephone which is one of the more interesting set of electronic noises you can find anywhere, and that started roughly when the publicity on this round about BCCI started.

But I don't think that I have been directly under surveillance and I don't want to overstate any of that issue. I have, however, heard of an instance where there may have been an effort to get the book on me, that a private detective may have been hired by BCCI to investigate my personal life, to see if there was anything they could find on me to discredit me. And I have made that information available appropriately.

And I would be happy to share that again with the committee in executive session.

Senator CRANSTON. What is your view or your theory about why so little was done by those who might have done more to investigate and prosecute?

Mr. BLUM. This scandal is an embarrassment to everybody who has anything to do with it. It is like the cesspool overflowing on the front lawn. There is culpability all around. There is culpability by foreign governments, within our own Government.

People know that they dealt with some of the same influence peddlers and fixers. There is a trail here in which almost everyone who touches it, says, my God, this is going to wind up sticking to me. And I think there is a kind of overall sort of distaste for getting into it because they know where all of these different pieces lead.

Now you could talk about some of the pieces: Iran Contra. These people were the original bankers who helped establish the bank accounts for the enterprise. They worked in providing arms in Central America. They were Noriega's banker. This reopens a raft of Iran Contra related questions.

There is the bribery in Guatemala. The generals in Guatemala and the issue of what happened there. Why was a retired senior U.S. military officer working with this crook to sell weapons in Guatemala?

When I look at the range of people and issues and countries involved, I am not at all surprised at the reluctance. Everyone wanted it to go away. The Bank of England desperately looking at the biggest scandal in history. How do you explain yourself as a regulator when you have a bank that for 15 years has cooked the books, totally cooked the books?

To give you the flavor of that, one of the most difficult problems I face and everybody else who has looked at paper in this case has faced, is the paper doesn't mean anything. That is say normally you try to follow a paper trail. You match a document with another document.

You try to figure out the corporate structure. You figure out who was an officer. What these people did was steal the money and invent the paper. What you would do would be anytime there was a hole in the balance sheet, you would invent a depositor, invent a borrower, put the paper in place and hope like hell that nobody

would ask questions as to who they were or where they were or what they borrowed.

And I think that that, the enormity of it is so embarrassing, it's not at all surprising that there have been multiple proposals for packaging all of the bad loans and letting them rule of Abu Dhabi bail them out, anything, get it off my front lawn.

Senator CRANSTON. What is your opinion of the handling of the case by the U.S. attorney in Miami, Mr. Genzman?

Mr. BLUM. I've told him to his face, I think it is worse than abysmal.

Senator CRANSTON. Do you have a view, an answer to that same question about Mr. Genzman?

Mr. VON RAAB. Well, Genzman had a problem. He was new. He was scared. He was inexperienced. He had a red hot case on his hands. He really was nervous about taking any decisions himself, and he was referring all kinds of decisions to the Justice Department.

So I just think that his failed performance was a function of basically a lack of backbone and experience. So apart from that, I think he did a good job.

Senator CRANSTON. Mr. Blum, do you have a further comment?

Mr. BLUM. I have a further comment here. I have some documents which I would like to have made part of the record, a deposition of Adolfo Calero in the lawsuit in Miami which involves this arms dealer, Munther Bilbeise in which the bank is a defendant.

And that lawsuit rather outlines some of the connections in Central America with the bank, and I would ask that this be made part of the record.

Senator CRANSTON. That will be made a part of the record.

Mr. BLUM. Also, the general who was down there helping sell the arms, Gen. James Vought, was deposed in the same case, and I would like to have that deposition made part of the record.

Senator CRANSTON. That will go in the record.

Mr. BLUM. Finally, the letter that was sent by the attorney for Lloyds in this case with a copy to Richard Thornburgh, that went to Dexter Lehtinen and that lays out what ought to be done and the problems here, and the investigation that should have been undertaken by Dexter Lehtinen.

Now the important issue is this, and I tell you it's an important issue for everybody who looks at this case: The records have to be preserved. There are records everywhere. There are records in London. There are records in Miami. There are records at the Fed. There are records, I am sure, in the Middle East and in Pakistan.

People are trying to destroy, hide, and lose those records as we speak; 3 weeks ago there was a large fire in a warehouse in London. My understanding is several firemen were injured fighting it. That was BCCI records.

There are a lot of people who will be embarrassed by those records. I think every effort should be made, both by this committee and by the courts to protect the records that exist from destruction and make sure that the various agencies and committees that investigate don't come and find empty boxes.

I would remind everyone in this room that this committee has already seen what can happen within our own Government. We

were in Miami in the spring of 1988. We were approached by a DEA informant, in fact, Deborah DeMoss of the minority staff was the one who he approached.

And he had a box of BCCI documents he was trying to remove from Panama. He brought them to the American Embassy in Panama City. He sealed them. He came up here independently. He said if he was caught smuggling them out, they would kill him.

He got to Miami and the DEA headquarters. The box had been opened. The documents were missing. We raised it in the hearing. DEA said we have an internal affairs investigation. To my knowledge, the documents were never found, no one was ever prosecuted.

Senator CRANSTON. Can I add on the matter of the documents, the records this committee has subpoenaed, a subpoena is supposed to mean you get what you request, and that we have received as a result of those subpoenas are uniquely fragmentary and very incomplete. That's the sort of response we get from this sort of a bank.

Mr. BLUM. Well, you have to understand that they begin with the proposition of being complete criminals, so the notion of well, we will face contempt. What is contempt when you are up for murder, delivery of weapons, and heroin dealing?

And it really is trivial. That is the least of the crimes you have to worry about, so why bother sweating a mere contempt citation from Congress.

Senator CRANSTON. One more question about U.S. Attorney Genzman, who in Justice would have been supervising his work in this matter?

Mr. BLUM. U.S. attorneys report to the Attorney General.

Senator CRANSTON. What did you mean when you said a bit ago regarding CenTrust? You said the Fed was able to put it together.

Mr. BLUM. Well, the Fed, in its most recent release, has linked the two banks and has made it clear, based on the records in its possession that CenTrust was effectively floated past an audit in Atlanta by the Home Loan Bank Board with money from BCCI and in connivance with key BCCI people.

The Fed has that out as a public document. It has been known for months and months and months and the U.S. attorney is nowhere.

Senator CRANSTON. In your opinion, did the Fed have a similar opportunity to be aware of what was transpiring in connection with the acquisition of First American and Independence Bank in California.

Mr. BLUM. I really am not familiar enough with the situation at the Federal Reserve to tell you what they knew or what they should have known, and what in fact they should have done about it.

I can say this, I have heard that the Fed has its share of extraordinarily interesting documents, and you might want to ask them about an audit they did of First American Bank which I have heard includes information about payoffs in Washington and the lists that they appear to have seen of people who were paid off by the bank and where those lists are and who they have given them to.

Senator CRANSTON. We will most certainly follow that lead. As you know, when pressure began to be put on Panama's General Noriega for his participation in illicit narcotic operations, many of these enterprises moved south and particularly to southern South America.

What can you tell us about this and do you make a connection between this activity and the decision of BCCI and people like Mr. Pharaon to invest in countries like Argentina, Chile, and Uruguay.

Mr. BLUM. I think the Argentine connection, in particular, needs careful examination. Mr. Pharaon moved south as the money opportunities moved south. He has engaged in debt equity swap. He has been involved in a wide range of dealings, financed by BCCI in Argentina and I would argue that that merits careful investigation.

I don't have personal knowledge of it, but I can tell you from the patterns I have seen emerge, that an investigation would be fruitful.

Senator CRANSTON. There was talk a few years ago, back in Argentina, of setting up an offshore banking zone. Do you believe that proposal had anything to do with Mr. Pharaon's presence in Argentina?

Mr. BLUM. The first I heard the idea, believe it or not, of an offshore banking zone was when Robert Vesco tried to persuade Mu'ammar Qadhafi to open one up. The idea of a place where there was no bank regulation at all has appealed to international crooks and con men for a long time.

I have talked to people from Argentina who maintain that that was a particular project of Mr. Feron's. That he wanted an international bank zone between Paraguay and Argentina and that he would have an opportunity to move in there.

I really don't know more about it than the comments I have heard.

Senator CRANSTON. There have been allegations that Argentina, during its military rule, and Libya under Qadhafi, and Pakistan used BCCI in their efforts to construct a nuclear device. Do you have any information on that?

Mr. BLUM. I don't, but again, the people involved in BCCI who I have talked to, have suggested that that was probably the case. They don't have firsthand knowledge. What has to happen is this has to be probed through. We have to get those bank people. They have to be put under oath and they have to be given the opportunity to tell the story.

I think we are going to find out an awful lot. Look, I was told in one meeting about BCCI helping finance and ship scud missiles from North Korea to Syria; assist in the movement of Chinese silkworm missiles from China to the Middle East; handle the financing and the payoffs involved in the purchase of Chinese armaments in many parts of the world.

I found it extraordinary that the Government of China, and apparently it had to have been the Government of China, intervened to block the closing the Hong Kong branch of BCCI.

Mind you, the Bank of England close it one day and BCCI Hong Kong waited another several days. And I can't help but wonder if that was not to give certain people the chance to get their money out of the bank.

Senator CRANSTON. I mentioned a bank in California that was involved with BCCI and just for the record, I would like to note that California and Florida and the District of Columbia, are not the only States that have banks of a BCCI connection. Other States where we have discovered that sort of a connection include Tennessee, Maryland, Virginia, New York, and Georgia.

This case seems to have far-reaching foreign policy and defense implications, as well as financial and drug and criminal aspects.

Have you seen any evidence that pressure has been brought to bear by the State Department in connection with any of these activities?

Mr. BLUM. Yes, Senator, I know of one instance in which an agent tried to get permission to travel to a foreign country to interview people about Mr. Feron, and the State Department refused him permission to go. The State Department gets a final signoff on the travel of law enforcement people to foreign countries.

There is a second thing which I found utterly astonishing, serendipitously, when I left the committee in March 1989, I was invited by the U.S. Information Agency to travel to Thailand and Pakistan to talk about narcotics law enforcement issues.

When I got to Pakistan I found the Ambassador was rather upset with the idea of my coming because he figured out that I was associated with the BCCI matter. My visit then planned to Islamabad was quickly canceled and I was advised not to talk about BCCI while in country.

Senator CRANSTON. Advised by whom?

Mr. BLUM. By the USIA people, and I believe there were a series of unclassified cables that lay that out, but more astonishingly, I talked in country to State Department people who said, oh, yes, we know all about the linkages between the government and the bank and all kinds of things, and it was clear that the State Department in Pakistan was way ahead of the Justice Department in Tampa.

I would guess that there is a need for closer coordination between the two.

Senator CRANSTON. There seems to be a need for a lot more coordination on a lot of fronts.

Do you recall at any time during the summer of 1988 receiving a phone call from the Ambassador of Nigeria?

Mr. BLUM. I did.

Senator CRANSTON. Could you describe that conversation?

Mr. BLUM. He said my President had asked me to call, what can you tell me about BCCI? It is rather astonishing when you are a member of the Senate staff and an Ambassador of a country calls you by name and says, the President of his country called him to call you.

I have never met the President of Nigeria.

Senator CRANSTON. Did you, during the same time, receive a phone call from President Seaga of Jamaica?

Mr. BLUM. We had a hearing, and that was another time in which BCCI was mentioned, in which one of our witnesses testified that there had been a lot of money laundering through Grand Cayman. His name was Lee Ritch, and one of the things he said was that high officials in Jamaica, particularly Prime Minister

Seaga, then Prime Minister Seaga, had done it through Grand Cayman.

I received an astonishing telephone call from the Prime Minister himself lambasting me for allowing this guy to make a remark he made absolutely off the cuff. I think it was to an open-ended question from Senator Kerry.

I think now we discover that Jamaica had central bank deposits at BCCI. The Jamaica state oil company, JamOil banked with BCCI and a series of people closely connected with Jamaica have been BCCI's good customers in Boca Raton.

I think that bears further investigation and discussion.

Senator CRANSTON. Apparently, the Government of Jamaica had connections with BCCI too, is that correct?

Mr. BLUM. That would be the central bank deposits, yes.

Senator CRANSTON. You mentioned that a faction of the Afghanistan guerrillas, the Majahadeen were involved in heroin trafficking. Could you tell us which of the factions were?

Mr. BLUM. Again, this is from people who are involved in it, but I don't have firsthand knowledge. It is the faction controlled by Hecmonti Ar, which is the faction we have supported. There has been some reporting on that. I think there should be a lot more.

Senator CRANSTON. Can you tell us anything you know about BCCI's relationship, if there is one, to narcotics trafficking next door to Afghanistan—in Pakistan and in China?

Mr. BLUM. It is very hard to say except that the people I talked to at the bank, again, one who was a participate in the black unit, said the branch networks in China were established to service the needs of people who were smuggling heroin out of southern China. BCCI was one of the very few private banks operating in southern China.

As far as the relationships in Pakistan, people have said that that is the core of the matter, and that we should be looking, at an investigative matter, about the links between the bank, the Pakistani Government and the Pakistani military, and particularly the links with the money we have expended in support of the war in Afghanistan, through that military.

Senator CRANSTON. Do you have any indications that the late military strongman, dictator Zia, tolerated or benefited in any way from these activities?

Mr. BLUM. I have been told that Zia and Mr. Abedi were very close friends, to the point where when he had a severe coronary, it is said that Zia left a State dinner to be at his bedside. Beyond that I can't offer you anything.

Senator CRANSTON. Given the revelations that were made yesterday by Senator Kerry concerning CIA knowledge of BCCI activities, and looking in retrospect, what do you think was the relationship between BCCI and U.S. Government agencies, including the CIA and any others?

Mr. BLUM. Senator, I am very terribly reluctant to speculate about who and which and how. I know that there are many people, particularly at the CIA, who thought very badly of this organization.

Whether there were other intelligence people who were involved in it is very hard to sort out, however, we can say that there are

links back to what appear to have been the old network that was being run out of the NSC, and whether that continued, whether there is information in this bank that that network continued, I can't answer. But I think that is a matter for serious inquiry.

Senator CRANSTON. Thank you very much for your responses.

Mr. BLUM. I should add one thing on the nuclear weapons issue you asked me about. The man involved with the bank that is now being sued in Miami, Bilbeisi, was in fact involved in an attempt to sell enriched uranium to South Africa, from South Africa, and that was supposed to go into a Middle East country, and there are documents to that effect in the case in Florida.

Now whether the bank was involved in it, I can't say, but Bilbeisi's brother was the branch manager in Jordan and Bilbeisi was the reason for their operation in Boca Raton, and he was at the center of whole range of business that the bank was involved in.

Senator CRANSTON. Was that supposedly going to a Middle East country, en route to South Africa?

Mr. BLUM. No, it was from South Africa to a Middle East country.

Senator CRANSTON. Did the Hong Kong and Shanghai Bank have a relationship with BCCI, as far as you know?

Mr. BLUM. I really can't speak to that. I haven't seen the documents.

Senator CRANSTON. I want to get back to you with one question a bit later, after I—a joint question for you and Mr. Von Raab, and Mr. Von Raab, I want to compliment you too on your perseverance and your diligence and the fine record you have of trying to get to the bottom of things, and working so hard on fronts like this.

There have been allegations that Argentina, during its military rule, and Libya under Qadhafi, and Pakistan—this is a question I put also to Mr. Blum—used BCCI in their efforts to construct a nuclear device.

Obviously, given the fact that the administration is now unable to certify that Pakistan does not have a nuclear device, this charge is very, very grave. Do you have any information on this?

Mr. VON RAAB. No, I don't have any information on it.

Senator CRANSTON. In 1983 a Dutch court convicted Dr. Abdul Quadir Khan, the chief of Pakistan's nuclear program, on charges of stealing blueprints for a uranium enrichment factory.

A similar plant was then built in Kahuta in Pakistan. According to the British newspaper, the Guardian, Khan's lawyer, a former Pakistani justice minister, was paid by the bank. Do you know anything about that case?

Mr. VON RAAB. No, I don't.

Mr. BLUM. I don't either.

Senator CRANSTON. If you do at any point, please say so. In 1984, Nazir Vaid, and two other Pakistanis were indicted in Houston with attempting to buy and ship to Pakistan high speed switches, instruments that could be used to trigger nuclear weapons.

According to the Guardian, the trio offered to pay in BCCI supplied gold. Do you know anything about that?

Mr. VON RAAB. That would have been a Customs case. I don't recall from the time when I was there and the case was being conducted, that BCCI came up in that, but in fairness, BCCI was not

quite the household word that it is today and therefore, it may or may not have.

And I think the best way to look at that would be to ask the present Customs administration to review that file and see whether it came up. I am sure if it did it is still in the file.

Senator CRANSTON. I would like to ask about just two more cases. In 1987, two Americans, Rona and Arnold Mandel were, together with a Hong Kong businessman named Leung Yiu Hung, indicated by the U.S. attorney in Sacramento, CA, on charges of illegally exporting to Pakistan nearly $1 billion worth of oscilloscopes and computer equipment for Pakistan's nuclear program.

It's reported that 15 shipments were made between July 1982 and August 1983 through Mr. Leung's Fortune company in Hong Kong to a Pakistani company called Aftab Bros. Do you have any evidence of BCCI's involvement in that transaction?

Mr. VON RAAB. I don't have any evidence of their involvement or lack of involvement. I just don't know the answer to that.

Senator CRANSTON. I am told there are court records to that effect.

Finally, a Pakistani born Canadian, Arshad Pervez, was indicated in Philadelphia of conspiring to export to Pakistan restricted specialty steel and metal which can enhance a nuclear explosion. According to court documents, BCCI was involved in financing that particular deal. Is that case familiar to you?

Mr. VON RAAB. The case is, but BCCI's connection, I am not aware of it, but it is quite possible. As Mr. Blum indicated, that was one of the lines of business that they had was basically helping to finance and make easier deals like that.

Mr. BLUM. Senator, the problem that we are all having in dealing with this bank is that, go back to the first proposition: It had 3,000 criminal customers and every one of those 3,000 criminal customers is a page 1 story.

So if you pick up any one of those accounts you could find financing from nuclear weapons, gun running, narcotics dealing, and you will find all manner and means of crime around the world in the records of this bank.

And what we have to do is kind of find some structural framework in which to look at the various issues raised by the bank, and I think one thing that we have to be absolutely certain of is that the records of these 1,000 criminal clients are maintained and that is the thing that I think is the most important of all.

Senator CRANSTON. One final question. You said earlier, Mr. Blum, that the bank was a factory for falsified letters of credit. I thought that Mr. Von Raab might have information on the shipments to Pakistan because of the issue of false Customs declarations and the question I would really like to put to both of you is whether you know of transactions of this sort of nuclear devices or otherwise that were financed with false letters of credit from BCCI?

Mr. BLUM. I don't. I just can say to you that the letter of credit business they maintained was like none other in the banking world.

Senator CRANSTON. Do you have any information?

Mr. VON RAAB. No.

Senator CRANSTON. It seems to me that it is a logical speculation that that was the case.

Mr. Chairman, that completes what I wanted to do at this point.

Senator KERRY [presiding]. Thank you very much, Senator, and thank you for carrying on during the break. I appreciate it very much.

Senator Jeffords.

Senator JEFFORDS. I will pass.

Senator KERRY. Senator Simon.

Senator SIMON. Mr. Von Raab, you mentioned that you were squeezed out of the information circle in the Florida situation by the Treasury Department.

Mr. VON RAAB. Right.

Senator SIMON. Why were you squeezed out?

Mr. VON RAAB. That's a tough question. They felt that I was overzealous in my drug enforcement efforts and they were uncomfortable with the degree to which I worked with Congress and the press in trying to push some of the cases.

And so in this case, they felt once again that I was pushing the case too hard publicly. I am not suggesting that they were opposed to my pushing the case with agents, but they felt that I was being too cooperative with the news, too cooperative with Congress. I don't agree with them.

I felt and still feel that one way to get good response on a law enforcement case is to be as cooperative as you can with Congress and with the press, because that in turn brings more pressure on that, gets you more agents, makes people more nervous.

And it was basically a fundamental disagreement between Treasury and me as to how the Customs Service should be run. They wanted it run quietly, on a much more low-keyed basis and I felt that drug enforcement had to be run at the highest energy level. We split there, and one of the areas in which we had a disagreement was on the BCCI case.

Senator SIMON. Mr. Blum, would you agree with that assessment?

Mr. BLUM. I really don't know what happened. I know that the public zeal for drug law enforcement tapered off considerably as we moved into the new administration, and the issue began to get a much lower profile attention.

I think what happened may have been associated with it, but I really don't know what happened inside the Treasury Department. I have heard that the battalion of lawyers involved went to great lengths to isolate people who were very hot on this case. I simply don't know whether they got to anybody at Treasury.

Senator SIMON. Mr. Von Raab, do you know who at Treasury made the decision to keep you out of the information circle?

Mr. VON RAAB. No, but it would have—I mean, I reported to the Secretary of the Treasury, so it certainly wasn't some GS-9. It was certainly, at least him or his deputy.

Senator SIMON. It had to be at the very highest level?

Mr. VON RAAB. Yes.

Senator SIMON. And who was Secretary of Treasury at the time?

Mr. VON RAAB. Brady.

Senator SIMON. Mr. Blum, and I regret, I was over voting when the two African questions came up, one while I was here, South Africa. Was this a South African bank that was involved or one of the branches of BCCI——

Mr. BLUM. What happened was an arms dealer who was connected with the bank, whose brother was a branch bank manager, who was a major bank customer, was involved in an effort to sell the enriched uranium from South Africa to the Middle East, and that is in documents which are in the court in Miami.

Senator SIMON. And was there any South African governmental involvement?

Mr. BLUM. I really can't speak to that. I can only speak to the telexes that this arms dealer had. So what you have to do is look at that and then go back and see whether it married any kind of reality on the other side.

There is one cautionary note I should put forward here. What we have discovered in looking at documents is, sometimes these documents don't mean anything. So for example, inside the bank you will find documents saying so and so borrowed $400 million.

Well, they didn't. The loan documents in the files were created for the express purpose of creating assets on the books where there were none, and it's that kind of thing that is very, very troubling.

Senator SIMON. I think you are getting a little additional information there. [Pause.]

Mr. BLUM. Yes, one other thing I am reminded of by a friend and colleague is that Bilbeisi sold weapons from Jordan to South Africa and he has a long record as an arms dealer and he was a close colleague of the bank's.

Senator SIMON. And this would have been approximately at what time period?

Mr. BLUM. In the 1970's, 1975, mid-1970's.

Senator SIMON. So it was well before the de Klerk regime?

Mr. BLUM. Right.

Senator SIMON. And my colleague, while I was over voting asked about Nigeria. I chair the African subcommittee, and if you don't mind——

Mr. BLUM. Well, BCCI is the largest private bank in Nigeria. BCCI has more branches than any other bank in Nigeria and BCCI lent the Nigerian Government $1 billion to get around requirements put on it by the IMF.

There are extraordinarily close relationships at all levels of the Nigerian Government with BCCI. And what I had pointed out was that I had been called when this investigation was going on by the Nigerian Ambassador who had been asked to call by the President to say, what's happening here? What are you guys doing with respect to BCCI?

I don't know that that is probative of what his interest was, but the bank had an enormous set of connections in that country.

Senator SIMON. One of the things, Mr. Chairman, that is involved here, there are those in developing nations who said, our only resource in terms of getting funds for our needs has been BCCI.

Mr. BLUM. Those countries who put their money with BCCI and their trust with BCCI, I think have been looted and now that the

bank is closing, they will see that this was not an assist to the Third World, but rather a looting of the Third World by some very rich people who made themselves all the richer, and in the process of doing that looting, also brought all manner of crime and corruption to their countries.

And I don't think this was any benefit to the Third World at all.

Senator SIMON. No question about it, but what it means is that by our failure to be diligent and do what we should, we have imposed an additional penalty on the poorest of the poor in the world.

Mr. BLUM. Absolutely, and I will point out one other thing, take a country like Argentina, Argentina has more external assets, that is to say, Argentines hold more wealth outside of Argentina than Argentina owes to all of the banks it's borrowed from.

And the story there is that Argentina's economic development has been starved by flight capital. When a bank like this comes along and says, we will help you get your money out, we will move all the money you want by suitcase or otherwise. We will convert the money. They are destroying the opportunity of that country to develop and that is exactly what has gone on in places like Argentina and Peru and all over Latin America.

And we have been here before. The same thing happened with Robert Vesco and IOS and the history of Latin America has been major banking institutions facilitating the movement of capital out of the continent and leaving the continent with the begging bowl and the World Bank and other public institutions which have to make up the difference.

And I think a lot of this has to do with bank regulation and bank policy.

Senator SIMON. And the net result is that people who are desperate, you mentioned Peru for example, massive economic problems there, and those problems have been compounded by our lack of diligence here.

Mr. BLUM. I think that that is very much the issue, and we owe, we owe these countries and ourselves, the obligation of regulating, because they certainly couldn't regulate BCCI.

Senator SIMON. I have no further questions right now, Mr. Chairman.

Senator KERRY. Thank you very much, Senator Simon. Senator Jeffords.

Senator JEFFORDS. No further question.

Senator KERRY. Senator Cranston.

Senator CRANSTON. What can you tell us about the knowledge or lack thereof of BCCI activities in the Third World countries by the World Bank and IMF officials?

Mr. BLUM. Well, one of the areas that is going to have to be examined carefully is BCCI maintained a huge representative office in Washington. That representative office spent a lot of time dealing with the World Bank.

I am very curious about the nature of those dealings. I don't know what was going on there, but I would certainly like to. I know too that the BCCI people spent a lot of time cultivating the U.N.

Perez de Cuellar was flying around in their airplane when the U.N. couldn't afford to transport him in appropriate style, it was

the BCCI jet that carried him around. The U.N. lost money in BCCI.

They obviously got very close to the major international organizations and institutions, and the question is, to what end and for what purpose?

Senator CRANSTON. Let me finally put this question to both of you. The premise first, it is bad enough that we have this corruption and criminality in financial circles in our country and elsewhere. It is bad enough that many innocent individuals have lost their fortunes or a significant part of their fortunes by making ill-advised deposits in this bank.

It is worse that poverty in the Third World countries which can contribute to world unrest and grave dangers has been aggravated, not reduced, by the activities of this bank. It is still worse that one of the worst plagues of the human race right now, narcotics, has been served to spread by this bank; and finally, it seems to me that it is worst of all that the grave threat of nuclear weapon use has been enhanced by BCCI's involvement and transference of nuclear technology from one place to another and one country to another.

What advice can the two of you give us as to what policy and regulatory steps we should try to institute to reduce, if not abolish, the danger that this sort of thing can happen again?

Mr. BLUM. I would start off by saying that we are now confronted with an extraordinarily serious question, and that is, can the system cleanse itself? Will there be the will to follow these trails to ground? Will there the resources?

Will the various prosecutors and agencies of Government in fact cleanse themselves and not be so embarrassed by past errors that they find it difficult to really do the mop up and the clean up?

I think that is the first question. The second one is we can't go to sleep at the switch. You can't tell the regulators, look, this is business, we are not going to look at it. You can't walk away.

Banking is the kind of business which is almost like a religion, you believe in money. You believe in banks. You believe in the way it works, and when someone comes along and perverts the entire system, the only protection you have is government and regulation.

And I must say that this country now has been given the opportunity to learn that lesson, painfully, over a long period of time. We have had S&L's, commercial banks, insurance companies, and now this which just for ugliness surpasses everything, not dollars, but for sheer ugliness surpasses anything else we have seen.

You can't not mind that store.

Senator CRANSTON. Mr. Von Raab?

Mr. VON RAAB. Well, there are two other points that strike me. One is that regardless of the slowness of law enforcement in responding, it is quite clear that they didn't have a mechanism or anything else with which to deal with this.

I mean, we have basically relied on the press, Congress, everyone else to develop information, and yet, the Government itself, you would think, could start to pull together some of that information.

I, in a small way, tried to establish this very minimal international money-laundering team which we called Operation C-Chase, and the Treasury Department began to fumble with the issue of a central repository for collection of data, passage of data back and

forth, and communication among those agencies that have responsibility for dealing with international financial enterprises.

Someone has to breath some life into that because the problem with international financial transactions is more and more significant with respect to any activities, criminal activities, whether they be the bilking of Nigeria's treasury or whether they be arms deals from one country to the other.

And our executive branch doesn't have any legitimate cross-departmental coordinating effort. I think Treasury is on the right line, maybe that is the right place to put it, but someone has got to try to pull together a cooperative effort, collect the data. And this—I don't mean it is expensive, I think it is more a matter of leadership on the part of some cabinet secretary to pull this together.

Senator KERRY. Well, is FinCen not envisioned as that entity?

Mr. VON RAAB. It is supposed to be, but all it has done so far is rent some space and it hasn't gotten the cooperation of anything outside the Treasury Department. It has not received any leadership that I have seen from anyone other than the people that work directly in it.

So I think that should be looked at as to why we don't have something that could at least pull some of this that you are trying to pull together—I mean, it's very nice that you are doing it, but really it should be the executive branch.

And then second, I just think it's a real problem in Washington, and that is foreign influence being brought to bear on the executive branch, whether it's a matter of tariff rates on trucks coming into the United States or whether it is a matter of a foreign financial enterprise being protected by hiring lots of important people, that just shouldn't happen.

We should be able to take care of our own affairs without having hired guns, paid enormous sums by people from outside the United States who desire to bilk or defraud or in some way, to pull the wool over our eyes.

And I don't know how you do that. I don't know if you do that by——

Senator KERRY. Let me ask you a question on that, if I could interject. I mean, the marketplace, I am coming from a strange place, but the marketplace is the marketplace and people have the right to push their ideas and hire people to push their ideas and it has always been a reality.

Is that the problem, per se? Is it the problem that those who are there to serve as the watchdogs, those who are there to regulate, those who are there, are not doing that part of the job?

Mr. VON RAAB. The problem is that in too many case those who are regulated are afraid of the influence that the people who are attempting to change their minds have. I mean, if Bob Gray or Frank Mankiewicz goes to somebody and talks about something, they realize that they are going to be at dinner the next night at the White House.

Or if Clark Clifford goes to see somebody, he realizes that at the next important Democratic meeting, Clark Clifford will be there and he is afraid of what is going to happen. And I don't know how you do it. I hesitate to say that you should prohibit it.

But someone should give a strong talking to the men and women in Washington who we look up to but who are doing nothing but selling their reputations to foreigners who want to make a quick buck.

Senator KERRY. Senator Simon. I am sorry, Senator Cranston.

Senator CRANSTON. I would just like to thank you both, you are two remarkable Americans.

Senator SIMON. I join in that sentiment.

But let me ask you this, you said we need a watchdog. Ultimately the watchdog on law enforcement in this country is the Justice Department. Do we need some restructuring there? Has the Justice Department done an adequate job in this deal?

Mr. VON RAAB. I didn't say we needed a new watchdog. Senator Kerry said we needed a new watchdog.

Senator SIMON. Someone did, all right.

Mr. VON RAAB. I don't think the fundamental structure is wrong. I just think that somehow the concept of public service for its own good has got to be brought back and we cannot continue to hold people in high regard because they are rich and they are powerful. That in turn converts to influence, and that in turn converts to venal and corrupt activity.

And maybe that is the—that is what's happening in Washington, and if you look at the important names who have assisted BCCI in this, they are all embarrassed, but I wonder if they would do it again.

Senator SIMON. But if it is not a structural change that is needed, what you are saying is clearly, there is a change in will that is needed.

Mr. VON RAAB. That's right.

Senator KERRY. Gentlemen, let me ask you, if you will, we have gone longer than we thought we would. We are going to put, I need to ask you both, Senator Brown does have a few questions.

We would like to tide you over to 2 p.m., if we can, for a brief period of time and then we will do Mr. Mattingly and I think we are going to have to adjust on the question—and Mr. Taylor.

And we will have to adjust on the question of the subsequent portion of the testimony.

Senator SIMON. I think Mr. Blum was going to answer me.

Mr. BLUM. I just had one point I wanted to add to your question about what do we do?

I worked with Senator Kerry, it was his amendment on the issue of drug money laundering and how we were going to get some international agreements that would begin to reign in the money-laundering operations.

And I have watched how the State Department has danced and waffled and woven and failed to deliver up on the necessary agreements that would begin to get a handle on this.

Then the question is: How do you hold them accountable? What do you do when an administration says, hey, that is the law but we don't care, we are not going to do it. Or, we will do it so slowly, it's largely irrelevant.

We have got to find some answer to that. There has got to be better accountability, and I don't know quite what the answer is,

but it's at the heart of the system of checks and balances, and right now, Congress is losing that one.

Congress doesn't have the tools to force accountability and bring people to book when they don't deliver. You can hold a hearing. You can embarrass them for a few minutes, but it has gotten so bad, they don't even come to hearings anymore.

Senator KERRY. Let me just say to both of you that I appreciate your testimony very much. You will be back at 2 p.m., and maybe return on another occasion, depending on developments here.

The committee will be following up, as I said, with Mr. Clifford, Mr. Altman, and others in September. But let me just say one thing, you know, I know, personally that what you have said is difficult.

I guess you sort of cast caution to the wind and it's no fun being a target. And both of you, by being direct and being blunt, are obviously not going to win friends and there are those who are going to try to attack you and attack the process and so forth.

I want to express my appreciation for your bluntness. We need some bluntness around here, and we need people who are willing to tell it like it is and do something about it.

And I think that both of you serve notice to people that individuals actually can make a difference if they are willing to take things on a little bit, and I think you have done that over the course of time.

Mr. Blum, your perseverance and efforts to take this to the district attorney and to stay in touch with us and to keep prodding and pushing have been important, and I think you deserve enormous credit for the courage that you displayed in the course of the investigation, the risks you took on occasion, and I know about those personally from that time.

Mr. Von Raab, I know exactly what happened to you, and I was here on this committee and I was chairman of the Narcotics and I was very much involved in the early effort of the drug war and I helped draft the two drug bills we passed, and I have seen what has happened to that effort.

And you have been willing to suffer the slings and arrows by virtue of your decision to speak up and that is painful, but it is also part of the best of our process, and I just want to express my appreciation to both of you for it.

And thank you for being here for this morning. I look forward to when Senator Brown has some questions that he wants to ask you this afternoon.

[Whereupon, at 1:03 p.m., the subcommittee adjourned, to reconvened at 2 p.m., the same day.]

AFTERNOON SESSION

The subcommittee met, pursuant to notice, at 2:01 p.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Cranston, Kerry, Simon, Wofford, Kassebaum, Brown, and Jeffords.

Senator KERRY. The hearing will come back to order.

We are waiting for Senator Brown who said he had some questions of Mr. Blum and Mr. Von Raab.

What I would like to do prior to the arrival of Senator Brown, if I may, Mr. Blum, is ask you a couple of questions.

I would like you to give us a sense of what you think, No. 1, the foreign policy implications are of this bank. What does this mean in general terms. And second, overall, I tried in my small way at the opening of the hearing to say what I think this means to people. What do you think this means to people? Why should people care about this?

Mr. BLUM. The first and foremost policy message is a straightforward one that we worked on for a number of years which is the narcotics problem. This bank provides a worldwide infrastructure for narcotics dealers. And we're talking about cocaine, heroin, the drugs of choice in different places.

And what this is a support system for crime on the streets in the United States and the death and destruction of a generation of children. In that sense, it's an immediate domestic issue.

In the larger sense it has implications for democracy everywhere because when you have a group of people running around the world corrupting fragile governments in places that are having a hard time, what you get is not democracy, what you get is a kind of Mafia government. And that doesn't do anything for average people. It destroys the faith of people in democratic institutions.

The issues with respect to development, the perversion of international lending schemes to support Third World development, I think is another major foreign policy issue.

And finally, there is an overwhelming domestic policy issue. I can't imagine why the United States of America would allow key people who are connected to the intelligence services of foreign governments to own a major bank in Washington, DC. Banks are notorious places for the collection of intelligence. And when you own a bank you can get to see the bank records of all the depositors. You get to see who's vulnerable. You get to be in a position to put money in the right places. I think that is an aspect of this that hasn't been looked at.

In other words, was this a political influence peddling scheme in Washington by foreign governments? We should know that.

Mr. Von RAAB. Senator, may I just add one point to that?

I know that the Congress has attempted to deal with this issue a number of times and this case may give it a renewed basis for addressing it again. And that is there really is no effective international cooperative mechanism for dealing with international banking crimes. Each country has its own banking regulators. They don't exchange information.

Once a bank transaction has left the shores of one country, whether it be in cash or whether it be by virtue of a wire or something else, that information is effectively lost to the regulators or the law enforcement people of the country from which it went.

And I know that this steps right into the issue of banking as regulated or as managed by one country versus another, different privacy rules, and the fact that banking is central to business.

Banking is also central to crime. And somehow the State Department, the Treasury Department, and the Justice Department have

got to get together in some way and get together with their respective pieces in other countries and work out some schemes in which we have effective law enforcement and regulation of the kind of international transactions that can lead to the creation of the BCCI's of this world.

Senator KERRY. Well, do you not think that the so-called Kerry amendments were an effort to try to force exactly that?

Mr. Von RAAB. I was an internal supporter of the Kerry amendments. That's why I never testified on the Kerry amendments.

I think that there are legitimate concerns about the Kerry amendments, but I think the balance of interest would have to support the Kerry amendments, yes.

Senator KERRY. Does not the change in the marketplace now, the rapid-fire transfer of trillions of dollars, the movement of capital so quickly between countries, the increasing relaxation of the lines that used to be both barriers as well as just demarcation points between countries, all of that is being erased now.

So in terms of international law enforcement efforts, in terms of fighting lawlessness internationally, and the kind of thing we have seen, we have seen whole governments taken over by criminal enterprises or nearly taken over in recent years. Banks and the way in which capital is moved are integral to that.

Mr. Von RAAB. Absolutely.

Senator KERRY. Therefore, it seems to cry out, BCCI seems to say, boy, here is an example of how, if all of you want to maintain the sovereignty of our governments and the sanctity of your laws, you better have a means of cooperating and of having some international standards that people adhere to or you are always going to have somebody out there who can subvert that. Is that accurate?

Mr. Von RAAB. And I watched the fumbling that went on when your amendments were being discussed and the administration was attempting to oppose them. They were desperate to get even a level of cooperation in discussion that they could describe to the Senate. They weren't even coming close to getting a real level of cooperation in a practical sense.

But the other countries were so unwilling to unbend and to open up some of their systems to us that even the preliminary discussions were almost fruitless.

Senator KERRY. We held you over here for Senator Brown. We have the Federal Reserve waiting and a number of other witnesses waiting. And we really need to try to keep things moving.

So, Senator Brown, I will yield to you.

Senator BROWN. Mr. Chairman, thank you. I particularly appreciate the opportunity to chat with these witnesses.

And I might say I think I share with you a shock at the kind of revelations that have come out today.

Mr. Blum, you reported incidences of people at the bank shredding documents that were under subpoena. Can you tell us who it was at the bank that was shredding the documents?

Mr. BLUM. My information, which was provided by one of the people who worked at the Washington office, was that documents had been boxed in Miami, shipped to Washington, and the people had come over from the bank's London office and were systematically shredding them.

I confronted the attorneys for the bank and they said no, no, it couldn't be and assured me that was not the case. On the other hand, I now learned that many documents that we asked for then are suddenly being found piecemeal and haltingly. And it's taken Senator Kerry's staff years of badgering the bank to ecker out what remains of what wasn't shredded.

Senator BROWN. Can you tell us who was it that told you this story?

Mr. BLUM. Yes, it's one of the witnesses whose names are blacked out in those memoranda.

Senator BROWN. So I take it that is available to the committee?

Mr. BLUM. Yes, it is.

Senator BROWN. I take it that means it's available to follow up on?

Mr. BLUM. Absolutely. And it was given to Justice at the time.

Senator BROWN. Why was it that it was blacked out?

Mr. BLUM. It was blacked out because the man involved was not an American, is not living in the United States, and is in a country where this issue is extremely hot. And he has a genuine and well-founded fear for his life.

Senator BROWN. Did you pass this information on to the Justice Department?

Mr. BLUM. Yes.

Senator BROWN. Who was it you told about it?

Mr. BLUM. Well, where do we begin? I worked first with a series of Customs and IRS agents, Steve Cook, Bob Moore, Dave Burris. I talked to the U.S. attorney.

Senator BROWN. Are these all Customs agents?

Mr. BLUM. Burris is IRS. Cook is Customs. Moore is Customs. And I want to say and I think the record should clearly reflect this, I have rarely worked with people of such courage and skill. And I was amazed frankly that some of them would stay on the job, given the stress and the salary level and the things they were being asked to do. I have no fault at all with them.

Senator BROWN. Mr. Chairman, the reason I want those on the record is I would assume one of the things that is going to interest us is to follow this chain where significant evidence is involved.

Mr. BLUM. Then I also dealt with the assistants in the Tampa office. I dealt directly with Mark Jakowski and an assistant by the name of Rubenstein.

Senator BROWN. And they were advised of this destruction of evidence under subpoena?

Mr. BLUM. They were. In fact, if you will recall, there is an affidavit from Burris about the problem with the witness being asked to leave the country. So I would say there was a real understanding. There was an effort to tamper with this investigation.

Senator BROWN. But just to make the record clear, you conveyed that to these two gentlemen in the Tampa office. And as far as you know, they did nothing to follow up?

Mr. BLUM. I have to say too I can't be precise as to whether the shredding incident by itself was, but certainly problems with the documents were.

I just don't recall at this point precisely what I told them. But they knew it was a serious problem with the investigation.

Senator BROWN. What about the two witnesses that were debriefed, I believe you said in 1988? You mentioned that both Customs and IRS officials had received that information.

Mr. BLUM. Yes.

Senator BROWN. Can you tell us who that was?

Mr. BLUM. Well, the two bank people who were debriefed, you have the identity of one of them. Both of them are under——

Senator BROWN. I meant the agents for the IRS.

Mr. BLUM. Oh, the agents? Again, it was the same people who set up the tapes and ran the tapes. And most tapes, by the way, have now been turned over to Robert Morgenthau and I believe are under the—are grand jury material.

Senator BROWN. I meant the names of the agents.

Mr. BLUM. The names of the agents? The same ones. It was the same team.

Senator BROWN. Can you tell us the names of the agents then?

Mr. BLUM. That worked on this? Again, Bobby Moore, Dave Burris, Steve Cook.

Senator BROWN. The Customs agents who held up the plane, to follow up on your source of information, do you recall any names of those people?

Mr. BLUM. No, those were internal affairs. And what they wanted to know was how some documents had gotten into the hands of the network. And these were documents relating to the *Noriega* case, BCCI documents seized in London. And most guys were from an internal affairs unit and I've forgotten their names. I wasn't taking notes. I wanted to get on with my vacation.

Senator BROWN. Sure. You mentioned letters of credit were issued with a 12-point differential, which is as you described, highly unusual.

Mr. BLUM. Right.

Senator BROWN. Can you give us an idea of who that was reported to?

Mr. BLUM. That was material that was turned over to the U.S. attorney in the southern district of Florida by the attorneys for Lloyd's of London in the *Bilbeisi* coffee smuggling case.

What makes this significant is there is a lot of smuggling that goes on. And that smuggling, to get away with it, you need to paper your shipments so that people can't understand what's going on. If this place was churning out as many letters of credit as the records in that case suggest, this was a factory for assisting smugglers and assisting people who wanted to misvalue their goods and come in and show Customs, hey, look, this is what we paid for. Don't bother us and try to collect extra tariffs.

And I'm sure Mr. Von Raab can tell you how significant and dangerous that kind of problem would be.

Senator BROWN. As far as you know, this particular practice was never prosecuted?

Mr. BLUM. It wasn't. Indeed, Dexter Lehtinen, the U.S. attorney for the southern district never followed up on the materials that were given to him.

Senator KERRY. To your knowledge.

Mr. BLUM. To my knowledge.

Senator BROWN. Sure.

Mr. BLUM. Now I would say that IRS on its own came in and went after one of the parties to the smuggling transaction. But the other part of it, the letter of credit part of it that was brought to the U.S. attorney's attention was never followed up on. And I believe the statute of limitations may have, by now, run on some of that.

Senator BROWN. In this process of reviewing, which is really an indepth process that you have been through, were there reports that resulted, that had recommendations with regard to legislation that might be helpful in this?

Mr. BLUM. Well, I didn't at that time generate reports other than help draft a committee report which was issued that had significant legislative recommendations and policy recommendations. And that report, of course, is a committee document. And I am sure it bears rereading because I think it will hold up in light of what's being disclosed as being a not bad piece of work.

Senator BROWN. I cannot recall if it was you or Mr. Von Raab who talked about Third World debts and the potential scam in that area.

Mr. BLUM. I did.

Senator BROWN. Can you give us specifics with regard to countries?

Mr. BLUM. I'm reluctant to do that because what I've heard there is not of my direct knowledge. And I think it needs to be fleshed out more.

The country that has been mentioned to me is in Latin America. I don't want to go beyond that. I would be happy to do it in a closed session. But I think it would create unnecessary further turmoil. And at this point to name it publicly and now have a hard back of material would be wrong.

Senator BROWN. I would appreciate that and I am sure we all would appreciate that information in closed session.

Can you give us the names of the people at Justice that you had passed this information on to? At least my recollection is that you mentioned them.

Mr. BLUM. I will say again that the people I've named are the ones who I dealt with.

I think the question of Third World debt is not one that I've discussed with Justice. That's come to my attention more recently from other people. And frankly, Justice certainly hasn't sought me out. I've been available at all times and I've offered to help.

Senator BROWN. I would appreciate your evaluation of whether or not you think a coverup was involved here, either by Justice or the Customs Service or the Internal Revenue Service.

Mr. BLUM. That's a very difficult question to answer, to make a judgment on. It's something that really has to be asked, though. And it has to be probed through. Without going into the internal processes of the Department of Justice, you can't really answer it.

But I've got to tell you these cases should have been prosecuted. Somebody, given 1984 a man walks into IRS and he says I'm dragging sacks of money around Miami. He gives them documents. He supports it. That man's name was Azziz Ruman.

In 1986 there's a money laundering case in Chicago, a Miami BCCI banker is convicted. Nobody links it up with the earlier report.

In 1987 you have the *Tampa* case and you get that plea bargain, that God-awful plea bargain. You can go right down this list of warning flags and signals.

And if you want to go through the banking end of it, the number of warning flags and signals of the ownership of First American, on the ownership of National Bank of Georgia, this case has been virtually dancing in public and nobody's bothered to go track it down or see it through to the end.

Senator BROWN. On Azziz, Azziz Ruman, I think you mentioned, can you tell me when that information was made available and to who?

Mr. BLUM. Well, precisely, we had a deposition. We deposed him. The information was given by him to the Internal Revenue Service. And all of that material including a receipt for the data he delivered from IRS is in a transfer to this committee.

Senator BROWN. Well that should give us the specifics we need to follow up.

Mr. Von RAAB. Senator, if I might just respond to your question just to tell you my exposure to Customs agents today, obviously, is much different from what it was. But I still know a lot of them. I have never heard any of them suggest that there was a coverup. And they typically would. If they saw it, they would comment and bridle, as it were.

But a lot of them have suggested there was just no interest in the case and just a complete sort of going to sleep on the part of the higher level officials from whom they take their signals. I mean, whatever commitment agents have, they take their signals from the people for whom they work. And there was virtually no interest or encouragement that came from that level, which implies to me that there was a sort of lethargy, a feeling good about things that just shouldn't have been there.

It's obviously not conclusive, but I have never been told by an agent that he or she felt that someone somewhere was stopping something. I think it was a question of not encouraging this thing.

Senator BROWN. But in light of some of the extremely inflammatory——

Mr. Von RAAB. Oh, I agree.

Senator BROWN [continuing]. Of what I think is the inflammatory nature of some of this, are not these the kind of revelations that would generate their own followup? I mean, you would almost have to take action to stop. I do not mean to lead you to a conclusion.

Mr. Von RAAB. No, I understand what you're saying.

Senator BROWN. But I think the question asks itself.

Mr. Von RAAB. But I think there is a difference between a coverup and getting an agency to move forward on something. Agents are necessarily looking at specifics. And agents, unless they feel there is support at higher levels, are less likely to begin a broad-ranging investigation.

I mean, the result of my problems with the Treasury Department, my being taken out of BCCI, I can assure you caused the

Custom agents in Tampa immediately to limit their scope because they realized—and it's not because someone told them to do that—but what they realized was that no longer was the fellow in charge going to protect them if they spent a few extra days chasing down something that didn't work or if they got in trouble because they were pushing their own jurisdictional authority somewhere. They knew that was over.

And so what they did is they dropped back and did exactly what they were told when they came to the office. And that's a big difference.

Senator KERRY. Would my colleague yield for one question?

Senator BROWN. Yes.

Senator KERRY. Did any of the agents while you were there reduce to writing any of their frustration in any memos?

Mr. Von RAAB. Not that I saw. And I'm not saying that they didn't do it and it went somewhere or I didn't do it. I didn't receive that.

Senator BROWN. One last question for my part.

I wonder if you all could summarize for me the crimes or at least indications of crimes that could have been prosecuted that were not prosecuted because of the plea bargain agreement.

Mr. BLUM. I would start out by saying you had almost 2 tons of documents seized from a bank in Miami, Boca Raton, and Tampa and virtually all of its business was in some manner or other, criminal. That suggests to me that there are an awful lot of crimes in that stack. And that somebody should have been over them very, very carefully and been fishing for that and saying we're going to move forward.

But the most significant crimes on which the ball was dropped all together are misrepresentations to the Fed, misstatements on audit papers delivered to regulatory authorities everywhere, falsification of all of the bank's books, aiding and abetting a variety of smuggling schemes, which would make them co-conspirators. And then I think a wide array of other pieces of business, including bribery and other forms of corruption. All of that was on the table.

We are beginning to see how much there was. I just hope people will insist that you follow through and get to the bottom of all of that criminal activity.

Senator BROWN. Was there evidence of other money laundering schemes other than the what that——

Mr. BLUM. You bet. You bet everything that you touch with this bank. It's like every time you turn over a rock, all of these things start scurrying around. It's like turning the lights on in a roach-filled kitchen. [Laughter.]

Everywhere. And I'll give you an example. We began to look at the papers that Azziz Ruman gave us. And this is early on. and there was a very peculiar thing, a $20 million deposit for the North Miami General Hospital. Well, that was in the Bahamas branch of BCCI and it was paying a point less interest than the going rate. That ought to be a significant clue that something is very wrong.

If you backtrack through the history of the North Miami Hospital, you found out that it was sold by some people. It was a charity and they sold out to a Texas corporation. The rules are that when a charity sells its assets, it has to give the money to another char-

ity. And here is the money sitting in the BCCI Bahamas account, paying less than market interest. Was there a crime? You bet there probably was.

Mr. Von RAAB. To give you an idea, even at the time of the arrests in October 1988, there was unhappiness among the Customs Service at the kinds of charges that were brought at that time because Customs felt that we could have charged people higher in the bank and we could have made stronger charges against the bank itself.

But we were, I won't say assured, but lead to believe that that would follow. Well, let's just get this done. We'll arrest these people, but we don't want to cause that problem now. So in effect, Justice acknowledged that with a small amount more work to fill some technical requirements, those greater charges against more important people and against the bank could be brought.

Well, those were never brought. Those were then, in effect, I won't say prohibited, but probably covered by this plea bargaining agreement. The kinds of charges that Morgenthau brought in New York respecting money laundering are the same as could have been brought in October 1988, October 1989, October 1990, and they weren't.

Mr. BLUM. What's so startling, Senator, is that when this bank was finally seized, my understanding is they showed some $900 million booked in U.S. accounts. This is 2 years after the plea bargain in Tampa when everyone knew what they were all about. I have to wonder what went on that enabled the bank to go out and tell the world that this was a minor problem limited to a few people in Tampa and that the bank had now cleaned up its operations. That's just an amazing development given what we now know.

Mr. Von RAAB. Hill & Knowlton is a very good public relations firm.

Senator BROWN. How did the plea bargain agreement jeopardize cases outside of, that could be prosecuted outside of that district or did it?

Mr. Von RAAB. I don't know. I don't know the details or the technical side of it.

Mr. BLUM. As I read the language, there is a prohibition on the use of material then known to the U.S. Government.

I understand that the Justice Department argued that that is only limited to what is known to the U.S. attorney in Tampa, FL. As far as I am concerned, that is splitting hairs. That kind of a clause should never have been in a plea agreement and there was no reason for him to accept it in the first place.

Senator BROWN. Thank you, Mr. Chairman.

Senator KERRY. Senator Jeffords?

Senator JEFFORDS. I just have one followup question. If you have answered this, I will look at the record. But you made the statement, I believe, that you did not believe the Noriega excuse. I wonder if you would elaborate on that.

Mr. BLUM. I just think we brought about information about Noriega to the Department early. And the response was rather, we're going after the money launderers. We're going to hold back on subpoenaing the records of his banks accounts and his dealings and all the rest of it.

Then after the arrest and the indictments come January, we get to a point of now we're going to bring these people to trial and we're going to use them to make the case against Noriega. So the odd thing is when there was a chance to get the evidence up front, they didn't take it. And then after the fact, they say the reason they don't go after the bank is because it's going to give them a shot at Noriega. I just can't put the two together.

Mr. Von RAAB. We disagree on this point.

Senator JEFFORDS. Maybe that is why I asked.

Mr. Von RAAB. But there isn't a lot of disagreement.

I am aware the Noriega prosecution originally was very much opposed by DEA. DEA felt that Noriega had cooperated a lot with them. And Jack Blum and Tom Kelly just could not believe that this guy was as bad as everybody said. And they questioned the witnesses and a lot of other things.

So they weren't moving very smartly on that case. And they just were reluctant because they felt this was a fellow that had helped them in many respects. But once the case was basically accepted by the Justice Department, the attorney general got behind it and obviously the President as well, the DEA and everyone else changed their position. And at that point, I think they became desperate to develop a good case against Noriega because they saw all this pressure coming down on them.

Senator KERRY. The only issue is, let me just ask you, and I am not contesting any of this.

Mr. Von RAAB. This is all speculation.

Senator KERRY. I agree it is speculation. But the critical question if all of that is true is, one would have thought there might have been superseding indictments or you would have looked for a money laundering charge or you would have looked to see, and there has not been any of that. Am I correct?

Mr. Von RAAB. Yes, but I think they got conned by BCCI. They didn't get any good information out of BCCI.

But the Noriega prosecution is a whole other issue. I will say this much. It does give you an example of the kind of pressure that can be put on a case if the right people get involved. I mean, they really did jump on the Noriega issue for a while. But I feel and I have some reason to believe from some of the agents that the agents felt that the Justice Department looked at the BCCI cases as a source of evidence.

Senator KERRY. Let me just make a comment there because I think this really underscores the kind of problem that has been discussed here.

I was very much involved in the Noriega effort. This is the committee that first let people know in this country that Noriega was banking in America, money laundering in America, and so forth. And it was our hearings that created a lot of public view of this.

Mr. Von RAAB. I was the first Federal official to get into trouble for being critical about Noriega, too.

Senator KERRY. You were very good about it and Senator Helms was working jointly in an effort to say something ought to be done about this guy.

Frankly, nothing was being done until the press picked up on what General Noriega and the linkages meant. Then you had sort

of a public issue. And then it became a political necessity, not a public obligation. And it was because it was a political necessity that, as former commissioner says, people suddenly jumped on it.

And, indeed, I agree. It was a hell of a good example of what people could do when they put their mind to it in the span of a few months to make something happen. And something did happen.

But unless it seems like there is that fire under it or something is happening, there does not seem to be that spontaneous sense of public obligation. And I think that is what both of our witnesses have been trying to underscore to us today.

I do not want to put words in your mouth.

Mr. Von RAAB. Oh, no, I agree.

Senator KERRY. Senator Simon?

Senator SIMON. I just have one policy question.

Within the next few months Congress is going to be facing the question do we take down the firewalls of Glass-Steagall that prohibit banks from getting into insurance and securities and other things.

What do you, as you reflect on BCCI, would it be wise for Congress to do this? Can we learn something from this operation?

Mr. Von RAAB. I think if you can get the Secretary of the Treasury to come before this committee and convince you that he understood what happened in BCCI, then you should do what he suggests. But if he comes before this committee and draws a blank, then you'll realize that the Treasury Department doesn't know what crime is. They only know what bank loans are.

Mr. BLUM. I think that there is a lesson. And the lesson is not only that it's very dangerous to play around with those firewalls because you've seen that it's difficult enough in straight banking to keep track of what's happening.

Now you see that where they are criminal and they're playing around with the books, it's even more difficult. Just add to the complexity of the institution and the regulators will be totally, totally swamped.

Senator SIMON. Without those firewalls, BCCI could have been in both the insurance business and the securities business.

Mr. Von RAAB. With all due respect, if BCCI wanted to be in those businesses,it would be in those businesses anyway.

Mr. BLUM. I hate to say this. I may have been. It turns out that Ghaith Pharaon owned an insurance company. David Paul owned an insurance company. We may yet find out that despite firewalls, because various people were asleep at the switch, they owned it anyway.

Mr. Von RAAB. Firewalls are only good for people that respect them. And the people involved in BCCI respected nothing.

Senator SIMON. Thank you. Thank you, Mr. Chairman.

Senator KERRY. Thank you very much.

Gentlemen, I want to thank you. As I say we are reserving the right if we may to recall you if such questions arise or if there is followup by the members. There is a lot of material that you have laid out. As I said earlier, we wanted to start with the big picture. You have given us the big picture. This is not a narrow trail, but a very broad one.

But I thought it was appropriate at the start of this hearing to really get a sense of what the record is, where it began, and where we are leading to.

This afternoon we have yet to hear from the Federal Reserve. There are some major implications about the currency and the First American Bank in Washington and so forth.

We are going to recess for about 5 minutes or 10 minutes so that we can vote. We will return as soon as this vote is over.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order please.

Thank you very much.

We have Mr. Virgil Mattingly, General Counsel of the Board of Governors of the Federal Reserve System and Mr. Williams Taylor, Staff Director for the Banking Supervision and Regulation Section of the Board of Governors Federal Reserve System.

Gentlemen, I am very appreciative to you for your patience. This has been a longer day than we anticipated. And I think you can understand why. And I thank you for hanging in there.

We would like to invite your opening statements. I would ask you if you have long, prepared statements if you want to submit them for the record and can summarize, I think it would be very helpful. Your full statements will appear in the record as if read.

I would like to ask both of you if you would also rise so I could swear you in as we are swearing all witnesses.

Do you, Mr. Taylor and Mr. Mattingly, do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. TAYLOR. I do.

Mr. MATTINGLY. I do. Senator KERRY. Who is leading off?

STATEMENT OF MR. VIRGIL MATTINGLY, GENERAL COUNSEL, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM; ACCOMPANIED BY MR. WILLIAM TAYLOR, STAFF DIRECTOR, BANKING SUPERVISION AND REGULATION, FEDERAL RESERVE SYSTEM

Mr. TAYLOR. I am. Thank you, Senator Kerry.

Mr. Mattingly and I have filed a joint statement, which we appreciate your putting in the record in its entirety. I will try to summarize and shorten it.

Senator KERRY. Without objection, your full statement will be placed in as if read in full.

Mr. TAYLOR. Thank you.

Most of the background, I think, has been given on BCCI. And in our previous hearing I think we've talked and discussed with the committee what actions that we had taken leading up to the point of the more recent events.

So what I would really like to do if I could is to skip that part and just go into the part commencing really since the committee's last hearing.

The early 1991 information received by the Bank of England about BCCI and its activities raised fresh questions about the condition and integrity of the institution as a whole. In turn the information prompted the Bank of England to commission Price Waterhouse to undertake a special audit under the provisions of British banking law. The results were——

Senator KERRY. Just a quick question. Has Price Waterhouse done previous audits?

Mr. TAYLOR. Price Waterhouse had done previous audits, yes.

Senator KERRY. Price Waterhouse was the auditor of record in the past?

Mr. TAYLOR. It was the auditor of record as of the date it was appointed on the special, I think it started as the auditor with the statements of yearend 1989.

Senator KERRY. Thank you.

Mr. TAYLOR. The resulting so-called section 41 report was completed and made available to the Bank of England in draft form on June 22, 1991.

The Bank of England's filings in British court indicate that the report disclosed evidence of a complex and massive fraud at BCCI. It was the findings of this report that led to the decision by the authorities in the United Kingdom, Luxembourg, and the Cayman Islands to seize BCCI.

The Federal Reserve was informed by the Bank of England on Friday, June 28, that a near-term seizure of BCCI was in the works. In light of this information the Federal Reserve promptly dispatched senior officials from the Federal Reserve Bank of New York and the Board of Governors to London, myself specifically from the Board of Governors to begin the coordination efforts that led to the seizure of the BCCI offices on July 5.

The primary concern of the Federal Reserve was to take all reasonable responsible steps to insure that the seizure of the BCCI banks did not precipitate serious disruptions to the U.S. banking markets or in the dollar-based payments and clearing systems both here and abroad.

Four factors loomed in the deliberations of the Federal Reserve in this regard. First, while BCCI's banking activities in the United States were small in balance sheet terms, a large global share of its activities, a large share of its global activities were conducted in dollars, which must be settled in banks within the United States.

Second, while the Federal Reserve was reasonably confident that the direct exposure of U.S. banks to BCCI was rather limited, we could not be sure that banking exposures in other banking markets or to other institutions might not cause disruptions in the interbank markets, payment flows, and foreign exchange transactions. These could spill over into U.S. markets and to U.S. institutions.

Third, there was also a danger that other banking institutions in the Gulf could come under pressure by virtue of uncertainties created by the BCCI seizure.

And finally, there was a more general concern that the precedent of seizing an institution with operations in 69 countries could by its very nature unsettle banking markets on a global scale.

By midday Wednesday, July 3, it was increasingly clear that the seizure would, in fact, take place on Friday, July 5. The Federal Reserve informed senior officials at the State banking departments in New York and California. As the licensing authorities for the BCCI agencies in New York and Los Angeles, these departments, and not the Federal Reserve, were responsible for initiating actions to close these agencies.

While the exact timing of the seizure of the BCCI banks had not yet been determined, the expectation on July 3 was that it would be timed to coincide with the close of business in New York on July 5. A special unit was established at the Bank of England to coordinate global regulatory actions and to provide a central point of supervisory information and advice.

For several days officials of the Federal Reserve Board and the Federal Reserve Bank in New York were stationed at the Bank of England to assist in that effort. A parallel unit focusing on payments and settlements issues, as well as activities in U.S. banking markets more generally, was established at the New York Federal Reserve Bank. This unit and a counterpart group at the Board here in Washington were staffed 16 hours daily during the first week after the closure.

Throughout the day of July 4 the Federal Reserve maintained close contact with the Bank of England. Based on these discussions, it was still expected that the closure would occur on the close of business in New York, July 5.

On the evening of July 4, however, the Federal Reserve was informed that the timing of the closure was being reconsidered due to legal issues that had arisen in Luxembourg. Over the course of the night of July 4 it became apparent that the goal of effecting the seizure at the close of business at New York time could not be realized.

Rather than have the seizure occur during the business day, it was decided to accelerate the seizure so that it would precede the opening of business in New York. This created a complicated task of getting the personnel and other arrangements in place in the early hours of the morning after the Fourth of July holiday. It was accomplished without major problems or difficulties.I21Public announcements in Europe and the United States were coordinated at 8:30 a.m. New York time. The States of California and New York acted promptly. Bank examination personnel were fully deployed by 8:30 a.m. and the information clearing centers at the Bank of England and the Federal Reserve remained operational throughout the day of July 5 and over the ensuing weekend.

Because of this cooperative effort among central banks worldwide and because the Federal Reserve and State authorities had already acted to scale back BCCI's limited operations in the United States, the seizure of BCCI was effected on a global scale with virtually no adverse effect on U.S. markets.

As a result of earlier regulatory action on the day, the U.S. offices of BCCI were closed by the States of California and New York. BCCI was funding its business in the United States basically from other non-U.S. BCCI operations, and as a result, had very little exposure to creditors in this country.

Although the exposure of this firm on a balance sheet basis had been over $1 billion some 2 years before, 18 months before, by the time the business was wound down, the net exposure on the day of closure was less than $20 million.

Mr. Mattingly will now discuss how BCCI was unable to obtain a substantial legal presence in the United States and decided to secretly control the shares of certain U.S. banks.

I might just add here that what is significant, I think, and something that concerns us, as it did the former witnesses, is the fact that we consciously, consciously from 1978 on, sought to avoid the presence of this company in this country and the Federal Reserve at no time approved any application of BCCI to do anything in this country. It is especially upsetting to us that they would do this illegally. Mr. Mattingly?

Mr. MATTINGLY. Senator Kerry, I, too, am pleased to be here today to appear before this subcommittee.

I won't go over or rehearse the history of the First American matter. That's contained in our earlier testimony.

I'll go right to the Board's investigation and what that has uncovered.

Senator CRANSTON. Could you move the microphone a little bit closer, please?

Senator KERRY. And when you refer to your earlier testimony, what do you mean? The one submitted today.

Mr. MATTINGLY. No. That is the testimony before the Subcommittee on Consumer——

Senator KERRY. Before the Banking Committee, the one where you testified before me in May.

Mr. MATTINGLY. May 23, yes, sir.

Senator KERRY. I think what we will do is make that testimony a part of this record also. Without objection.

Mr. MATTINGLY. It is attached to our longer statement.

Senator Kerry, as you know, on January 4 the Board ordered a formal investigation as to whether BCCI had illegally and secretly acquired control of the First American banks here in Washington in 1982 and whether false or misleading statements were made to the Board by BCCI and others in order to achieve and conceal that secret control.

This investigation, the Board's investigation, built on prior inquiries that the Board had conducted into a possible link between BCCI and First American. These inquiries had gone all the way back to the time of the initial application in 1981.

A very significant development in the Board's inquiries into this matter came in late 1990 when the New York County District Attorney, Mr. Morgenthau, with whom the Federal Reserve had been working, advised that he had received information from an informant that an auditor's report showed BCCI loans to CCAH shareholders.

The Federal Reserve had been attempting for some time to determine whether those loans existed despite having been told repeatedly and as late as 1990 by BCCI that it had not lent to acquire those shares.

The Fed demanded access to the report from BCCI and, after some resistance, we were able to review a copy of that report dated October 3, 1990, in London in early December 1990. The report confirmed the existence, this is the Price Waterhouse report, it confirmed the existence of over $1 billion in longstanding nonperforming loans by BCCI secured by the shares of CCAH. CCAH is the parent, top-tier holding company, for First American.

Senator KERRY. Did it have a date as to when that transaction was effective?

Mr. MATTINGLY. No, it did not. The report merely listed the fact that there were over $1 billion in loans going back some years secured by the stock.

That review provided the Federal Reserve with evidence of a violation of the Board's 1981 order which approved CCAH's acquisition of First American on the basis that BCCI would have no role in that acquisition and would not fund the shareholders' acquisition. The Board, thereupon, ordered the formal investigation.

That investigation has gone on for some 7 months now and has uncovered evidence of extensive and secret loan and nominee arrangements between BCCI and its customers. These arrangements were designed to allow BCCI to acquire in the name of these customers the stock of the First American banking organization as well as three other federally insured depository institutions in this country.

These arrangements in many cases, most cases, involve sham loans to the BCCI customers with side agreements, which we have seen, with the customers that the customers would not be required to repay or service the loans and that BCCI at any time it chose could sell the shares and retain the profits. In return for the use of their names, our evidence suggests, that the customers received fees and indemnities.

Most of the CCAH loans were never serviced or repaid except through other loans from BCCI. From the evidence available, it appears that though bookkeeping manipulations of CCAH stock and loans to repay or service loans, BCCI generated hundreds of millions of dollars in fictitious paper profits to cover massive losses in its trading and lending accounts.

As a result of the information acquired in the early stages of our investigation, as soon as we had information about these nominee arrangements, the Board on January 22 made criminal referrals to the Department of Justice and proposed a cease and desist order against BCCI.

As issued in March, the cease and desist order had four principle aims. It required BCCI to divest promptly its CCAH shares according to a plan to be submitted to the Fed. It required termination of transactions between BCCI and the First American banks. It required BCCI to have sufficient liquid assets at its New York agency to cover liabilities in those agencies. And finally, it required termination of BCCI's residual business presence in the United States within 1 year, as quickly as possible, but within 1 year. In other words, the Federal Reserve decided that BCCI should leave this country.

In connection with the investigation, the Board has also taken steps to monitor through the examination process the operations of the First American banks. Events have made the requirement that BCCI divest the CCAH shares under its control more difficult. BCCI had submitted to the Board two proposed divestiture plans. These plans called for a transfer, at our suggestion, of the shares of CCAH held by BCCI to a trustee acceptable to the Federal Reserve. The trustee would have complete control over that stock and would be directed by the trust agreement to negotiate the sale of that stock to a third party acceptable to the Federal Reserve as promptly as possible. The Federal Reserve would have given the trustee a

certain amount of time to negotiate the sale. At the end of that time without a sale, the Federal Reserve could have directed the holding of a public auction on the stock.

Implementation of BCCI's divestiture plans has, however, been delayed by the seizure of BCCI by the regulatory authorities on July 5. After that date, the officers and counsel for BCCI were no longer able to negotiate or effectuate a divestiture of CCAH or the other bank stock that BCCI acquired.

The July 5 seizure does not, however, void the Board's divestiture orders. Those orders remain fully effective and legally binding. The seizure shifts the responsibility and the task of implementing those orders from BCCI to the receivers for BCCI.

Senator KERRY. Let me understand that now for a minute. The receivers for BCCI? Where?

Mr. MATTINGLY. This would be the receiver——

Senator KERRY. Does that take us to London?

Mr. MATTINGLY. It would take us to Mr. Smouha, yes, to London and Luxembourg.

Senator KERRY. So you are now telling us that resolution of First American bank shares lies, not in our hands or our control, but essentially in control in another country?

Mr. MATTINGLY. No, I'm not.

Senator KERRY. That is what I am trying to understand.

Mr. MATTINGLY. The Board has an order outstanding, a divestiture order.

Senator KERRY. The Board has an order outstanding, but the Board cannot get its order implemented. Is that accurate?

Mr. MATTINGLY. We have asked for a plan from the receiver to implement that divestiture order.

Senator KERRY. But you cannot do it until you receive a plan from Luxembourg?

Mr. MATTINGLY. We have asked them for the plan, yes.

Senator KERRY. What would the date be? Do you have an anticipated date?

Mr. MATTINGLY. I have a meeting arranged with them. I have met with them already. I have been in contact with their lawyers.

Senator KERRY. Let me let you finish, and then I will pursue some questions.

Mr. MATTINGLY. We are going to meet again with them next week regarding this point.

The receivers have stated in these meetings with us that they intend to cooperate with the Federal Reserve to achieve a divestiture. Our discussions are continuing. The Board is also exploring other avenues to regularize the ownership of CCAH. We do have an effective order outstanding. And there are certain remedies available to the Board to make sure that that order is enforced and carried out.

The Board's investigation of the BCCI matter is continuing and is the most comprehensive in our experience. As part of the investigation, the Board is proceeding with enforcement actions as the evidence to support those actions is accumulated. Thus, on July 29 the Board assessed a civil money penalty against BCCI of $200 million. The notice covered the illegal acquisition of First American and two other banks, the National Bank of Georgia and CenTrust

Savings Bank. I should also note that the Board earlier in July issued a notice with regard to BCCI's alleged illegal acquisition of the Independence Bank in California.

The Board has also taken actions to bar permanently nine individuals associated with this from any involvement in U.S. banking. At the request of the U.S. attorney for the District of Columbia, the Board has deferred temporarily the assessment of substantial civil money penalties against the individuals charged pending completion of the U.S. attorney's criminal inquiry.

Senator Kerry, as you know, as a result of the BCCI matter and other recent compliance problems that the Federal Reserve has had with foreign banks, the Board has proposed and recommended legislation to strengthen the supervision and regulation of foreign banks in the United States. Those proposals were introduced in the Senate as Senate bill 1019 by Senator Riegle, Senator Kerry, and Senator Garn and are being considered as we speak by the Senate Banking Committee as part of a comprehensive banking reform proposal.

Senate bill 1019 is intended to help assure that the important banking policies established by the Congress are applied to all bank operations in the United States and that the sizable foreign bank community in this country adheres to legal requirements and operates in a safe and sound manner.

One of the most important of those recommendations is a recommendation that no foreign bank be allowed to open additional offices in this country unless the Federal Reserve is assured that there is home country supervision for that bank. And that recommendation grows directly out of our experience with the BCCI matter.

BCCI at its apex was a holding company. It was also a bank holding company. But it was a holding company and it operated without a supervisor that could ensure consolidated supervision over the organization as a whole. The absence of supervision, of consolidated supervision, was crucial, critical, to BCCI's ability to carry out the manipulation of its books and the concealment of its actual financial condition.

In closing, I wish to point out that the Board's legislative recommendations do not guarantee that BCCI problems will never reoccur. Fraud is hard for any regulator to detect, especially when the transactions are deliberately and intentionally structured to conceal relationships and when the relevant information is maintained outside of the United States.

The Board's proposal is an attempt to address the potential for such illegal activities by creating a bar to U.S. entry by weakly capitalized, poorly managed, and inadequately supervised organizations. Thank you.

[The prepared joint statements of Mr. Taylor and Mr. Mattingly follows:]

PREPARED STATEMENTS OF J. VIRGIL MATTINGLY, JR., AND WILLIAM TAYLOR

We are pleased to appear before this Subcommittee to describe recent developments in the case of Bank of Credit and Commerce International, S.A. and its affiliates (collectively "BCCI"). As has been widely reported, bank regulatory authorities in the United Kingdom, Luxembourg, Grand Cayman, the United States, and sever-

al other countries took action on July 5, 1991, to secure control of the BCCI banks as an initial step toward the liquidation of BCCI. This action was taken in response to evidence of widespread fraudulent conduct by BCCI and its management. More recently, the Federal Reserve assessed a civil money penalty of $200 million against BCCI for its unlawful acquisition of the stock of U.S. banks and its concealment of this control in regulatory filings. The Federal Reserve has also initiated actions to bar nine individuals associated with BCCI from involvement with U.S. banks. The New York County District Attorney's Office has also secured indictments against BCCI and two of its senior officers.

SUMMARY OF REMARKS

Our remarks today begin with a summary of BCCI's operations, both abroad and in the United States, and a description of the events leading to the seizure of the bank's assets. We will then discuss the effect of BCCI's seizure on two U.S. banking organizations, First American Bankshares of Washington, DC, and Independence Bank, Encino, CA, the shares of which the Board believes are controlled by BCCI. Finally, we will discuss the Board's ongoing enforcement actions and its legislative proposals to strengthen the supervision of foreign banks operating in the United States.

BANK OF CREDIT AND COMMERCE INTERNATIONAL

Structure of BCCI

BCCI was founded in 1972 and until recently operated principally under the leadership and management control of individuals from Pakistan. Initial equity financing of BCCI was provided by Middle Eastern investors and Bank of America. Bank of America's ownership interest in BCCI was sold in 1980. In April 1990, in order to bolster BCCI's sagging financial position, the ruling family and the Government of Abu Dhabi provided additional capital that increased their ownership interest in the shares of BCCI from about 30 percent to 77 percent.

BCCI's operations encompassed subsidiaries, branches and affiliates in 69 countries, principally in developing countries. BCCI, however, was not one of the largest banks in the world. Its total assets of roughly $20 billion ranked it about 200th in the world. The parent holding company, BCCI Holdings (Luxembourg) S.A., was chartered and headquartered in Luxembourg, and the two largest banking subsidiaries of the company—Bank of Credit and Commerce International S.A. and Bank of Credit and Commerce International (Overseas) Limited—were chartered in Luxembourg and the Cayman Islands, respectively. Although nominally headquartered in Luxembourg, BCCI's global business was operated out of its London offices.

Under Luxembourg law, holding companies are not subject to supervision. Thus, BCCI was able to avoid consolidated home country supervision of its activities. Virtually from BCCI's formation, concerns were raised about a bank operating internationally without a home country regulator.

BCCI's Operations in the United States

BCCI has never been permitted to operate a branch in the United States that accepts deposits from the general public; nor was it permitted to operate or control an insured bank. BCCI at one time maintained state-licensed agencies in New York, San Francisco, Los Angeles, Miami, Tampa, and Boca Raton and representative offices in Washington, DC, and Houston. None of these offices could accept domestic deposits. Because of actions taken by state and federal supervisory authorities as well as BCCI's plans to restructure its operations, four of the six agencies were closed by January 1991, and the remaining two had very substantially reduced their operations. The representative offices were closed by August 1990.

Under a Federal Reserve Order issued earlier this year, BCCI's remaining operations in this country were scaled back and the company was ordered to terminate its activities in the United States within a year. On July 5, 1991, the two remaining state-licensed agencies—in Los Angeles and New York—held combined assets of approximately $250 million but less than $20 million in liabilities to unrelated creditors.

BCCI's offices in the United States were licensed and supervised on a regular basis by state authorities. As the residual supervisor of U.S. branches and agencies of foreign banks, the Federal Reserve participated in some state examinations and conducted some examinations of its own. Under the current framework governing foreign bank operations in the United States established in the International Banking Act of 1978, the states are the primary regulators of the branches and agencies they license, and the Federal Reserve is directed to rely on their reports of examina-

tion insofar as possible. As described in the last section of this testimony, the Federal Reserve believes that the time has come to require the same type of federal supervision and examination for foreign bank operations in the United States that applies to U.S. banks.

Supervisory Actions—Money Laundering

In May 1987, a Federal Reserve examination of the Miami office of BCCI identified money laundering activities, and a criminal referral was filed with the Internal Revenue Service, the Federal Bureau of Investigation and the U.S. Attorney in Miami. In October 1988, BCCI and a number of its U.S. employees were indicted for money laundering through BCCI's Tampa, FL, office. The Federal Reserve, with cooperation from state authorities, immediately commenced a coordinated examination of all of BCCI's U.S. offices. The examinations of the New York and Boca Raton offices revealed other money laundering activities, and additional criminal referrals were made in October and November of 1988.

The examinations also revealed that internal controls and lending practices of the BCCI agencies were poor and that remedial action was required. The Federal Reserve issued a cease and desist order against BCCI in June 1989 designed to strengthen the U.S. banking operations of BCCI and enforce compliance with currency reporting requirements.

Post-Indictment Period

The indictment for money laundering in the United States further weakened BCCI's already fragile reputation in the world financial community. Federal Reserve staff was advised that BCCI was experiencing some outflow of deposits in London and was encountering difficulty in finding counterparties for its banking transactions. In addition, BCCI's auditors had raised questions about whether certain loans were collectible, which brought into sharper focus the need for fresh capital. To address these developments, the Government and ruling family of Abu Dhabi in the spring of 1990 provided capital resources of nearly $400 million, increasing their ownership of BCCI from 30 percent to about 77 percent.

BCCI's problems, however, continued to mount. In October 1990, Price Waterhouse delivered a report to BCCI's board of directors that identified substantial additional problem loans. This report gave rise to renewed discussions between the bank and its principal shareholder and European banking authorities concerning possible approaches to a broad-based restructuring of the bank. These discussions continued into 1991.

By early 1991 information received by the Bank of England about BCCI and its activities raised fresh questions about the financial condition and integrity of the institution as a whole. In turn, this information prompted the Bank of England to commission Price Waterhouse to undertake a special audit under the provisions of British banking law. The resulting so-called section 41 report was completed and made available to the Bank of England on June 22, 1991. The Bank of England's filings in British courts indicate that the report disclosed evidence of a complex and massive fraud at BCCI, including mismanagement, substantial loan and treasury account losses, misappropriation of funds, unrecorded deposits, the creation and manipulation of fictitious accounts to conceal bank losses, and concealment from regulatory authorities of BCCI's true financial position. It was the findings of this report that led to the decision by the authorities in the United Kingdom, Luxembourg and the Cayman Islands to seize BCCI.

The Seizure of BCCI on July 5

On Friday, June 28, the Bank of England informed the Federal Reserve that the findings contained in the Price Waterhouse report made it likely that the authorities in the United Kingdom, Luxembourg and the Cayman Islands would move during the following week to take control of the principal banks in the BCCI group. This information, while still tentative in nature, was provided to the Federal Reserve in part as an outgrowth of the continuing dialogue that had been occurring between the Federal Reserve and the Bank of England regarding the overall investigation into the BCCI affair, but also because it was recognized that the seizure of a global bank operating around the clock in some 69 countries would have to be executed with great care in order to avoid banking disruptions on a national or international scale.

In light of this information, the Federal Reserve promptly dispatched senior officials of the Federal Reserve Bank of New York and the Board of Governors to London to begin the coordination of efforts that led to the seizure of the BCCI banks on July 5, 1991. With respect to that action, the primary concern of the Federal Reserve was to take all reasonable steps to ensure that the seizure of the BCCI banks

did not precipitate serious disruptions in U.S. banking markets or in dollar-based payment and clearing systems here or abroad. Four factors loomed large in the deliberations of the Federal Reserve in this regard:

First, while BCCI's banking activities in the U.S. were very small in balance sheet terms, a large share of its global activities were conducted in dollars, which must be settled with banks in the United States. From the perspective of the Federal Reserve, and with the experience of the Herstatt failure of 1974 very much in mind, this fact made it very important that the announcement of the seizure of the BCCI banks be timed so as not to occur during normal business hours in New York—a judgment that was shared by the Bank of England and others.

Second, while the Federal Reserve was reasonably confident that the direct exposure of U.S. banks to BCCI was limited, we could not be sure—especially in the face of the multiple uncertainties about the underlying condition of BCCI—that banking exposures in other markets or to other institutions might not cause disruptions in interbank markets, payment flows, and foreign exchange transactions that could spill over into U.S. markets and institutions.

Third, there was also the danger that other banking institutions in the Gulf—institutions with no connections with BCCI and several of which have a major presence in London and New York—could come under pressure by virtue of uncertainties created by the BCCI seizure.

Finally, there was the more general concern that the precedent of seizing an institution with operations in some 69 countries could—by its very nature—unsettle banking markets on a global scale.

Over the course of Tuesday, July 2 and Wednesday, July 3, the Federal Reserve briefed the Treasury Department, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and others about the unfolding developments in Europe. The Federal Reserve's efforts took place in confidence in part because of the still uncertain course of events in Europe and in part to ensure that premature disclosure of information did not place some creditors of BCCI-related entities in a preferred position.

By midday Wednesday, July 3, it was increasingly clear that the seizure would, in fact, take place on Friday, July 5. In these circumstances, the Federal Reserve informed senior officials at the state banking departments in New York and California. As the licensing authorities for the BCCI agencies in New York and Los Angeles, the state banking departments—not the Federal Reserve—were responsible for initiating the actions to close those agencies.

While the exact timing of the seizure of the BCCI banks had not yet been determined, the expectation on July 3 was that it would be timed to coincide with the close of business in New York on July 5. A special unit was established at the Bank of England to coordinate global regulatory actions and to provide a central point of supervisory information and advice. For several days, officials from the Federal Reserve Board and the Federal Reserve Bank of New York were stationed at the Bank of England to assist in that effort. A parallel unit, focusing particularly on payment and settlement issues, as well as activities in U.S. banking markets more generally, was established at the New York Federal Reserve Bank. This unit and a counterpart group at the Board here in Washington were staffed 16 hours daily during the first week after the closure.

Throughout the day of July 4, the Federal Reserve maintained close communication with the Bank of England. Based on those discussions, it was still expected that the closure would occur at the close of the business day in New York on July 5. On the evening of July 4, however, the Federal Reserve was informed that the timing of the closure was being reconsidered due to legal issues that had arisen in Luxembourg. Over the course of the night of July 4, it became apparent that the goal of effecting the seizure at the close of business New York time could not be realized. At about 2 a.m., Friday, July 5, the Federal Reserve was informed that the only practical options were to coordinate the seizure either at mid-morning New York time or to accelerate the action so that it would precede the opening of business in New York. The choice to accelerate the process was clear. This created a complicated task of getting the personnel and other arrangements in place in the early hours of the morning after the Fourth of July holiday, but it was accomplished without major problems or difficulties. Public announcements in Europe and the United States were coordinated at 8:30 a.m., New York time, the states of New York and California acted promptly, bank examination personnel were fully deployed by 8:30 a.m., and the information clearing centers at the Bank of England and the Federal Reserve remained operational throughout the day of July 5 and over the ensuing weekend.

Because of this effort involving the close cooperation of authorities in a number of countries and because the Federal Reserve and state authorities had already scaled back BCCI's limited operations in the United States, the seizure of BCCI was effected on a global scale with virtually no adverse affects on U.S. markets and institutions. As a result of earlier regulatory action, on the day the U.S. offices of BCCI were closed by the states of California and New York, BCCI was funding its business in the United States from other non-U.S. BCCI offices and not from U.S. sources. As of July 30, it appears that less than $20 million of the $252 million in liabilities on the books of the U.S. offices of BCCI are to third parities.

THE FIRST AMERICAN BANKS AND INDEPENDENCE BANK

As the Chairman of this Subcommittee, Senator Kerry, will recall, we testified on May 23 about BCCI's efforts to gain control of U.S. banks before a subcommittee of the Senate Banking, Housing and Urban Affairs Committee. That testimony, a copy of which is attached and which we will not repeat in detail here, indicated BCCI had used loans and nominee agreements to secretly gain control of the majority of the shares of First American Bankshares in 1982. The testimony also describes continuing efforts of the Federal Reserve to detect and prevent BCCI control of First American's shares, and the violation of explicit commitments that BCCI would have no interest in the First American organization and would not fund the acquisition of First American.

On January 4, 1991, the Board authorized a formal investigation concerning whether BCCI had violated the Bank Holding Company Act by unlawfully gaining control of First American, and whether false or misleading statements were made to the Board by BCCI and others in order to conceal BCCI's control. This investigation built on prior inquiries into a possible First American-BCCI link made by the Federal Reserve in 1989 and 1990.

In late 1990, the New York County District Attorney, with whom the Federal Reserve had been working, advised that he had received information about an auditor's report showing BCCI loans to shareholders of Credit and Commerce American Holdings, N.V. (CCAH), First American's parent. The Federal Reserve had been attempting for some time to determine whether such loans existed, despite having been told by BCCI as late as 1990 that it had not lent to acquire CCAH shares. As a result of the information, the Federal Reserve demanded that BCCI provide access to the auditor's report. After initial reluctance by BCCI's auditors, the Board's staff was able to review a copy of that report in London in early December 1990. The report confirmed the existence of over $1 billion in nonperforming loans by BCCI secured by shares of CCAH. That review provided the Federal Reserve with substantive evidence of a BCCI-First American link, and the Board thereupon ordered the formal investigation.

That investigation as it progressed over the next several months uncovered evidence of extensive and secret loan and nominee arrangements between BCCI and customers of BCCI designed to allow BCCI to acquire in the name of these customers the stock of the First American banking organization as well as other depository institutions in the United States. These arrangements in many cases involved sham loans to the BCCI customers with side agreements that the customers would not be required to repay or service the loans and that BCCI could sell the shares and retain the profits. In return for their services, the customers received fees and indemnities. These nominee arrangements are described in detail in the Board's civil money penalty and prohibition actions of July 12 and 29, 1991.

Many of these CCAH loans were never serviced or repaid except through other loans from BCCI. From the evidence available, it appears that these arrangements, particularly in later years, enabled BCCI to generate hundreds of millions of dollars in fictitious profits to cover massive losses in its trading and lending accounts.

The Board's Cease and Desist Orders

As a result of information acquired in the early stages of the Board's investigation, the Board on January 22, 1991, made criminal referrals to the Department of Justice and proposed a cease and desist order for BCCI. The cease and desist order, which was joined in by the New York banking authorities and consented to by BCCI on March 4, had four principal components: requiring BCCI to divest promptly its CCAH shares; ending business transactions between BCCI and the First American banks; ensuring that BCCI had sufficient liquid assets to cover liabilities in the U.S. agencies; and terminating BCCI's residual business presence in the United States.

The order required BCCI promptly to divest its interest in CCAH through a plan to be submitted to the Board for its approval. The order, and a similar one against CCAH, also prohibited transactions between BCCI and the First American banks

(other than capital injections into the banks and certain clearing transactions in the ordinary course of business). After entry of the order, the Richmond Reserve Bank informed the First American Bank of New York that its clearing transactions for BCCI should be wound down and terminated before the end of 1991.

The Board's investigation continued after issuance of the March 4 order and discovered further evidence indicating that BCCI also had acted through a nominee, Ghaith Pharaon, to acquire the Independence Bank, Encino, CA, in violation of the Bank Holding Company Act. On May 3, the Board issued a second cease and desist order requiring BCCI to submit to the Board a plan for the divestiture of any shares of Independence Bank within its control. A criminal referral relating to this violation was also filed.

In conjunction with the investigation, the Board has also taken steps to monitor through the examination process the operations of the First American banks, and to determine any relationship with BCCI. Examinations and special reviews were undertaken by the Federal Reserve and other federal and state banking authorities in January 1991. These efforts continue.

Implementation of the Orders

As a result of the orders, transactions between BCCI and the First American banks and Independence Bank have been steadily eliminated. The relationship between BCCI and the First American Bank of New York—with which BCCI had maintained a correspondent relationship—was wound down substantially by July 5.

Events have made the requirement that BCCI divest the shares of CCAH under its control more difficult to achieve. On May 3, BCCI submitted to the Board a proposed divestiture plan for the CCAH shares, and on July 3, BCCI submitted a divestiture plan for the Independence Bank shares. The CCAH plan called for transfer of the shares of CCAH held by BCCI, and possibly shares held by other CCAH shareholders, to a trust administered by an independent trustee acceptable to the Board. The trustee would vote the stock and negotiate its sale within a time frame agreed to by the Board. We found the trust arrangement to be acceptable, but considered the proposal to be deficient because it failed to set forth the timing of the sale—specifically, there were no guarantees that the divestiture would be a prompt one, as required in the Board's order. We therefore rejected BCCI's proposal by letter of May 10, and required BCCI to submit within 10 days a revised plan that addressed this concern.

On May 20, BCCI did submit a revised plan, which also relied on a trust arrangement. Although this new plan did not contain a timetable, it did contain details and conditions that appeared to expedite the sale. A preliminary draft of the trust agreement was submitted by BCCI on June 20.

Implementation of BCCI's proposed divestiture plans has been delayed by the seizure of BCCI by regulatory authorities. After those authorities seized control of BCCI on July 5, the officers and directors of BCCI were no longer able to negotiate or effectuate a divestiture of CCAH or Independence Bank stock on behalf of BCCI.

The July 5 seizure order does not void the Board's divestiture orders, however. The orders remain fully effective and legally binding. The seizure shifts the task of implementing the orders from BCCI to the receivers for BCCI. We have been in contact with the receivers, explaining to them the need to achieve total divestiture as soon as possible, and requesting that they submit promptly a revised divestiture plan. The receivers have indicated a desire to cooperate with the Federal Reserve to achieve divestiture, and our discussions are continuing. The Board is also exploring other avenues to regularize the ownership of CCAH and Independence.

ENFORCEMENT

The Board's investigation of the BCCI matter is continuing and is the most comprehensive in our experience. As part of its investigation, the Board is proceeding with enforcement actions as the evidence to support such actions is accumulated. On July 12, the Board issued a notice of intent to bar from U.S. banking individuals participating in the Independence Bank violation. Those individuals are Agha Hasan Abedi and Swaleh Naqvi, two former senior officers of BCCI; Kemal Shoaib, a former officer of BCCI and the former chairman of Independence Bank; and Ghaith Pharaon, the owner of record of Independence Bank and a shareholder of BCCI.

More recently, on July 29, the Board issued a Notice of Assessment of $200 million in civil money penalties against BCCI for its illegal acquisition of CCAH, the National Bank of Georgia and CenTrust Savings Bank. The Board also issued a notice of intent to bar permanently nine individuals associated with BCCI from any

future involvement with U.S. banking organizations. On the same day, the District Attorney's Office for the County of New York secured indictments of BCCI.

The Board is continuing to cooperate with law enforcement agencies, and will of course consult those agencies before taking enforcement action so as to avoid prejudicing any criminal investigation. Thus, at the request of the U.S. Attorney for the District of Columbia, the Board has deferred temporarily the assessment of substantial civil money penalties against the individuals already charged, pending completion of the U.S. Attorney's criminal inquiry.

CURRENT STATUS

As of July 6, 1991, governments of 18 countries were known to have closed or restricted the activities of BCCI operations in their jurisdictions. By July 29, 1991, a total of 44 countries had closed BCCI offices in their respective jurisdictions. BCCI offices continued to be open under varying degrees of regulatory presence in 25 other countries as of the same date. Although complete information is not yet available, it appears that governments of some developing countries could have some exposure to BCCI.

LEGISLATIVE INITIATIVES

As a result of the BCCI matter and other recent compliance problems with foreign banks, the Board reviewed the statutes, regulations, and supervisory policies governing foreign bank operations in the United States. In order to help prevent problems such as those presented by BCCI from recurring, the Board has sent to Congress a set of proposals to strengthen the supervision and regulation of foreign banks operating in this country. Those proposals, collected as the Foreign Bank Supervision Enhancement Act of 1991, were introduced in the Senate as S. 1019 by Senators Riegle, Kerry and Garn, and are to be considered as part of the comprehensive banking reform proposal currently before the Senate Banking Committee.

This legislation would establish uniform federal standards for entry and expansion of foreign banks in the United States, including, importantly, a requirement of consolidated home country supervision and the application of the same financial, managerial, and operational standards that govern U.S. banks. The proposal would also grant regulators the power to terminate the activities of a foreign bank that is engaging in illegal, unsafe, or unsound practices. Regulators would be provided with the information-gathering tools necessary to carry out their supervisory responsibilities.

As this case amply demonstrates, continuing consolidated supervisory oversight of a bank's operations is essential to maintaining the integrity of the bank's operations and preventing adverse effects on the financial system. BCCI operated without a supervisor that could demand consolidated financial reports; this method of operation was critical to its ability to carry out the manipulation of its books and the concealment of its actual financial condition.

The proposed foreign bank legislation is intended to ensure that no other foreign bank may participate in this country's banking system unless the books and records showing the financial condition of that organization are open to inspection by a home country supervisor and the bank is supervised on a consolidated basis. The legislation provides the regulatory tools needed to implement this policy.

CONCLUSION

The Federal Reserve is monitoring the BCCI situation closely and will continue to cooperate with Federal, state, and foreign bank supervisors and law enforcement agencies. Further information concerning the extent of BCCI's fraudulent activities and the individuals involved may come to light as the numerous investigations underway progress.

Our immediate goal is to make the current separation in fact between BCCI and CCAH and Independence a complete separation in law, so that these banks can be relieved of any taint that they might be suffering from an association with BCCI. In the coming weeks, we will be working with British, Cayman and Luxembourg authorities toward that end.

Senator KERRY. Thank you very much, Mr. Mattingly.

Let me just say, because I think it is important, as criticisms are surfacing here and as questions arise about performance, I think it is also important to point out where there has been good performance and where people have been responsive.

And I want to personally thank you and I want to thank Chairman Greenspan and the Fed who have been very responsive to our concerns this year. The Chairman personally has responded a couple of times to suggestions that we had. I want to congratulate the Fed for its recent efforts in this.

I know the Chairman was in touch with the Bank of England some months ago and was talking with them about the problem and there were great questions about how to proceed.

I think in recent months you have proceeded courageously and appropriately.

There are questions, obviously, about who knew what and when and who should have known what when and whose responsibility it was to do what when. And those are clearly on the table to a certain degree here.

I think one also has to put all of that in perspective and balance it against the role of the Fed and what the Fed is really equipped to do and supposed to do and so forth.

The record is clear and I concur with the record that in recent years there has been a conscious effort to prevent BCCI from being able to gain the foothold that it did gain surreptitiously. But there are other questions that I want to ask you in terms of this.

And I would like to begin in one area and then we will move over to another. Who, according to the Fed, owns First American Bank now? Who owns the bank?

Mr. MATTINGLY. The banks, the First American banks are owned by a bank holding company registered with the Board located here in Washington, DC. The holding company is called First American Bankshares.

First American Bankshares is owned by a series of holding companies, three other holding companies. The top tier holding company is called CCAH.

Senator KERRY. And who are the principals of CCAH?

Mr. MATTINGLY. It is the stock of CCAH that we believe, over 50 percent of the stock of that holding company, we believe, is controlled by BCCI. We also know that 29 percent of that stock is controlled, owned and controlled, by the Government and ruling family of Abu Dhabi, one of the United Arab Emirates.

Senator KERRY. So in effect, when you peel off the layers and work down the corporate ladder, in point of real control of who has the capacity to govern, it is fair to say that the Government of Abu Dhabi owns First American Bank?

Mr. MATTINGLY. I would say that the Government of Abu Dhabi, the Government and the ruling family, the Government and the royal family of Abu Dhabi, have a control block, yes. I would agree with that.

Senator KERRY. So the largest bank in Washington—do you have a correction of that, Mr. Taylor?

Mr. TAYLOR. No. Other than to observe that I agree with Mr. Mattingly. However, I think if you were to ask those people and they were here, they would say they don't have very much control at all in reality in the sense of calling the day-to-day shots.

Senator KERRY. And the reason for that would be what?

Mr. MATTINGLY. Pursuant to the original Board approval order in 1981, control of those banks was put in the hands of an American board of directors, the First American Bankshares directors.

At that time, it was Mr. Clark Clifford, Mr. Altman, Senator Stuart Symington, General Quesada, General Gavin. Representations were made to the Board that these Middle Eastern investors were only in this as a passive investment, that real control of the operations of those American banks would be in the hands of this American board of directors that I've described.

Senator KERRY. Now in terms of the legal issues here and the rights of the Fed, so to speak, is there a legitimate distinction between legal control by shares owned and day-to-day control as it is exercised?

Mr. MATTINGLY. Under our statute there is such a distinction, yes.

Senator KERRY. Can you clarify that for the sake of the committee?

Mr. MATTINGLY. There are two types of control. The first type of control under the Bank Holding Company Act is ownership or control over the stock of a bank. It is that which we believe that BCCI has.

The other kind of control covered by the Bank Holding Company Act is control over the way the bank does business, a so-called controlling influence test; can this person cause the bank to do certain things or not do certain things. That is the control that, when the Board approved the order, was vested in the board of directors, the American board of directors.

Senator KERRY. Was it vested in the board of directors in the knowledge that the bank would, in effect, by virtue of stock control, passive or otherwise, be in the hands of the ruling family and connections of Abu Dhabi?

Mr. MATTINGLY. Yes, at that time the Abu Dhabi, part of the royal family of Abu Dhabi, I believe, was to own approximately 10 percent of the CCAH. And ADIA, the Abu Dhabi Investment Authority was to own about 8 percent. So the original——

Senator KERRY. The original transaction which took place in 1981.

Mr. MATTINGLY [continuing]. Was consummated on April 17, 1982. The Abu Dhabi interest, I believe, had about—I can get you the exact figure. I think it's 18 or 20.

Senator KERRY. We would like the exact figure for the record if you have it. You do not have to do that now, but is it 18 percent or 20 percent?

Mr. MATTINGLY. I have it right here.

Senator KERRY. Then I will wait for you.

Mr. MATTINGLY. The Abu Dhabi Investment Authority had 8.24 percent. And then it shows here, I'm sorry—13.72 percent that was held by a gentlemen named Abdullah Darwash. And he was holding those shares as trustee or personal representative for a minor son of the ruler of Abu Dhabi. So, together you have approximately 21 percent, a little over 21 percent, 22 percent.

Senator KERRY. Now Darwash at that time was under house arrest, was he not, I believe? And this is the issue that came up in the course of——

Mr. MATTINGLY. Yes, on the day that the Board approved the order. The Board subsequently learned that Mr. Dharuash was under house arrest in Abu Dhabi.

Senator KERRY. Subsequent to this purchase, a clandestine series of transactions took place, is that accurate?

Mr. MATTINGLY. That's our information, yes.

Senator KERRY. And those specifically were what?

Mr. MATTINGLY. The manipulation in the stock.

Mr. TAYLOR. A series of loans were basically made by BCCI to individuals secured by the stock. And indeed, the terms at least from what we can determine, the terms of the loans were such as to not make them loans at all, but really to cast them more in the light of a nominee holding. That's in layman's terms.

Senator KERRY. And in effect, because they were not serviced, ownership was transferred?

Mr. TAYLOR. Not just because—I should let the counsel answer.

Senator KERRY. Not just because they were not serviced. Go ahead.

Mr. MATTINGLY. They were sham loans. You know, in our view. What it alleges, the Board has issued a 110-page indictment that describes the various transactions that occurred in that stock beginning in 1982. What's alleged in here is that they weren't loans, that that stock was owned by BCCI right from the beginning and loans were—there were loans made to individuals, stock was registered in individuals names, and fictitious loans were made to those individuals to purchase the shares.

Senator KERRY. And as a consequence of those fictitious loans, it is the judgment of the Fed Reserve today that BCCI in effect owns First American, is that correct?

Mr. TAYLOR. That's correct.

Mr. MATTINGLY. What is alleged in this document is that beginning in 1982 they had at least 25 percent, which is legal control under the Bank Holding Company Act and over the ensuing years they may have had more. Over the ensuing years ending in 1989, they acquired, we believe they hold today, 60 percent of the stock of CCAH.

Mr. TAYLOR. But one of the questions that comes up when one looks back to see what happened and when it happened, and the question is not, could BCCI lend to these individuals. There is nothing in our order that prohibited BCCI from lending to individuals for other purposes.

But it was very clearly in the intent in the original application and it was the Board's understanding when it approved this application that they would not borrow from BCCI for the purpose of affecting the transaction. Not just because the loans were past due, but also because of other documents that were found indicating prior arrangement as opposed to straight debt.

Mr. MATTINGLY. I think for the benefit of the committee, if I could, in our prior testimony before the Banking Committee, there are listed out on pages 8 and 9 a sampling of the various statements and representations made to the Federal Reserve Board in 1981 in connection with that application. And one of them, I think, bears repeating.

The application stated, quote, "BCCI owns no shares of FGB," that's First American, "CCAH or CCAI either directly or indirectly, nor will it if the application is approved. Neither is it, BCCI, a lender nor will it be with respect to the acquisition by any of the investors of either First American, CCAI, or CCAH shares."

In our view, nothing could be clearer.

Senator KERRY. Now, Mr. Mattingly, Mr. Taylor, are you prepared to make available to the committee a copy of the Price Waterhouse report?

Mr. MATTINGLY. This is the Price Waterhouse report dated June?

Senator KERRY. The June Price Waterhouse report.

Mr. MATTINGLY. I would think that if the Federal Reserve received a formal request from the committee, that would be given appropriate consideration, serious consideration. [Laughter.]

Senator, I am not at liberty to make that decision. That decision would have to be made by the Board.

Senator KERRY. Can you tell me any reason why the committee, we are just looking at this issue, should not be able to see the report on which the judgment was made that massive fraud was involved?

Mr. MATTINGLY. The Federal Reserve received that report from the——

Senator KERRY. You guys do not classify things, too, do you?

Mr. MATTINGLY. No, we did not. We received that report from the Bank of England. And we received it under an arrangement from the Bank of England that we would have to notify them of any request that we received for access to the report. I add that that report——

Senator KERRY. Well, I would take the liberty, we are a quorum here of the committee, I do not know how everybody feels, but I would like to see that report and I would like to request it? Does anybody disagree? [No response.]

So consider this a formal request of the committee.

Mr. MATTINGLY. I would hope that we could submit that report.

Senator KERRY. Let me ask you another question. And we would hope that you can submit it shortly.

Have you or any of your investigative staff, Mr. Taylor, seen an alleged list of U.S. officials reportedly prepared by officials at BCCI that indicates payoffs or bribes in any form?

Mr. TAYLOR. We have been hearing about this list for the last 3 weeks or 4 weeks. We have questioned almost everyone we can find in our organization to see if there is anything that could have been determined to be such a list. And we have not been able to find such.

The only thing I can think of is that early in the examination I told the examiners to be sure and get a full list of all of the customers of First American so that when we had known names from the Middle East or from Europe or from wherever who were people who might be linked to BCCI, that they could check it against the full list of the customers.

So our examiners have that list. But we do not—to answer your question directly—I know of no list of individuals who received payoffs. I would like to have such a list. And I would be happy to turn that over to the committee immediately.

Senator KERRY. Do you have any evidence at this point of either bribes or payoffs?

Mr. TAYLOR. We have a few instances where there are expenses paid for people to take trips and attend conferences and the like. There are some expenses—you know obviously, any bill to a law firm, any bill paid to a law firm—that you have to know what's behind them. We don't know of anything at this point.

We have some list of people as consultants—really not a list, I guess one or two consultancies—that you could say, what did the consultant do and so forth. But we don't have any big list.

Senator KERRY. Just one last question before I turn it over to my colleague here.

Are you aware of an audit completed recently by the auditors for First American which suggests that certain U.S. officials may have received unusual services or payoffs from the bank? Have you heard of that?

Mr. TAYLOR. I'm not aware of that.

Senator KERRY. You are not aware of that? So you do not have either of those in your possession?

Mr. TAYLOR. No.

Mr. MATTINGLY. I'm not aware of it, Senator.

Senator KERRY. Fine. We have just been hearing about it and I wanted to ask.

Mr. TAYLOR. We have, too. And we are most interested in any information that could lead us to find such a list we would appreciate.

Senator KERRY. Thank you very much. Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

Mr. Taylor, or perhaps Mr. Mattingly, I wonder if you can tell me when the Federal Reserve first had information forwarded to it that raised the question of BCCI having taken control of the bank or purchased indirectly controlling interest?

Mr. TAYLOR. We had, I think the first indication that I had was really through a contact that our Mr. Ryback had internationally that indicated there were loans at BCCI in Luxembourg. I mean, that was the first time I think I had heard of a specific statement. There were allegations from the beginning, I mean from 1978 on.

But as far as information on someone having control and there being an identifiable individual that made that statement, I think it was not until the middle of November 1989 that we had anything specific.

Mr. MATTINGLY. I think that's correct. As I testified in front of the Senate Banking Committee—I'm groping here for the date.

Senator BROWN. Well, that is about 13 months prior to when the investigation was ordered.

Mr. TAYLOR. That's until the order of investigation was given, that's correct.

Mr. MATTINGLY. What we did after we received that was to—do you want to continue?

Mr. TAYLOR. Let me back up.

First of all, as it relates to BCCI and what I'll call the modern era of 1986, 1987 on, I mean, in 1987, of course, the Federal Reserve through its examiner in Miami made a criminal referral for money laundering in 1987 to the Justice Department and to the Internal

Revenue Service, which was then the procedure for Bank Secrecy Act suspected violations.

Senator BROWN. I am sorry, repeat that for me? Who was it that made that?

Mr. TAYLOR. Our examiner in an examination of the agency of BCCI in Miami suspected money laundering and made, through the Atlanta office of the Federal Reserve Bank, a criminal referral to the Justice Department.

I believe the procedure was that after they had made that referral, we received it in Washington at the Fed, and we were the ones in Washington who made the referral on to the Internal Revenue Service. So there were two referrals of the money laundering in 1987.

Senator BROWN. Was there anything in that period that was passed on to the Fed that would have suggested that BCCI had an equity interest?

Mr. MATTINGLY. Yes. There was telephone call that a member of the supervisory staff received from a Customs official on December 27, 1988, a Customs officer asking our supervisory person about a possible connection between First American National Bank of Georgia and BCCI. The Customs official asked for all the documents, the Y-7's, the reports and anything else that we had. And in the course of that conversation he mentioned to this Federal Reserve staff person that he had an indication from a BCCI employee that BCCI owned First American banks.

Senator Smith: What action did the Federal Reserve take when that information came to their attention?

Mr. MATTINGLY. I don't know whether this was in response to that or not, but in January 1989 the Federal Reserve Bank of Richmond conducted a review to determine whether First American, whether there was a link between First American and BCCI.

Senator BROWN. So the information came in 1988 and 1989, and they began a review?

Mr. MATTINGLY. And the review did not detect——

Mr. TAYLOR. You have to remember that the information that came to us was a statement that someone had made. There is no corroborating evidence of that, that I'm aware, and the first time we found a place where there might be corroborating evidence is really when we had the supervisor in Luxembourg tell our Mr. Ryback that there certainly are loans.

Senator BROWN. That was when, again?

Mr. TAYLOR. That was November 1989.

Senator BROWN. November 1989. Tell me, in the financial statements that the nominees had submitted when they acquired their interests in the banks that as I understand it you all review, were those consistent? I mean, looking back on them, are they financial statements that you think would be reasonable for people acquiring this large an interest?

Mr. MATTINGLY. Remember, BCCI did not purchase First American as far as we knew.

Senator BROWN. I understand that, but the people who were the so-called—the purported purchasers of the bank.

Mr. MATTINGLY. Yes, the original application—they were submitted with the original application statements by those people showing, in most cases, very, very substantial net worths.

Senator BROWN. Were those financial statements audited?

Mr. MATTINGLY. No, they were not. There were some of them that were submitted by accounting firms. There were also confirmations of account balances at banks. In addition to that, the Federal Reserve went to the point of holding a hearing and having four of those investors come in and testify in front of that hearing. Those individuals came in—it was an informal hearing. Those individuals came in and made statements that they were going to make the acquisition with their own personal funds. They were not borrowing from BCCI.

Senator BROWN. What did the Fed do to verify those bank statements—those personal financial statements?

Mr. MATTINGLY. The staff of the Federal Reserve made inquiries of other Government agencies about any information that they might have about these particular individuals. They went to the CIA, the State Department, the Commerce Department, and so forth.

As I said, the financial statements that were submitted with the application, there were requirements that they also submit in certain cases statements from banks indicating that the banks were holding balances for those individuals.

Senator BROWN. Now, according to our press, Mr. Clifford and Mr. Altman or about May 3 presented Federal bank regulators with a financial statement outlining their purchase and sale of First American stock in the 1986-88 period. Do you understand that to be correct? Is that newspaper report correct?

Mr. MATTINGLY. Well, the Federal Reserve did not find out—well, Mr. Altman and Mr. Clifford reported in certain of the official filings with the Board by the company that they had purchased stock of CCAH. During our investigation, we found out that BCCI—that those acquisitions—that those acquisitions of stock were financed by BCCI, and that is the report that I think you're referring to.

Senator BROWN. Uh-huh.

Now, there is a chart before you that may help, but basically, as I understand it, the stock in the roughly 1½-year period tripled in value. A portion of that was sold at an enormous profit, and a portion of that stock remains in those gentlemen's names.

My question is, what is going to happen to the stock that they continue to hold, and what will happen to the stock—to the profit that was recognized off of those stock sales?

Mr. MATTINGLY. Senator, as I indicated, the Board's investigation into this matter is continuing, and I believe it would be—I would ask your consideration that we not answer that question. That is a matter that's directly involved in our investigation as well as your investigation.

Senator BROWN. I can appreciate your position. Let me ask, is it within the purview of the Board to take action regarding a stock sale and take action regarding the stock? Is that one of the things that comes under——

Mr. MATTINGLY. That would be within the purview of the Board under our supervisory responsibilities, yes.

Senator BROWN. If I understand what you said, these are both areas which you are looking into?

Mr. MATTINGLY. The Board is looking into the entire matter of this BCCI-First American link from 1978 when it started until the present. We are looking at every aspect of that from every possible angle, and as I indicated, when we get evidence, we take action.

Now, in this indictment that we issued the other day, there are schedules which set out who bought the stock when and for how much, and when they sold it. I can read. I can tell you that from that document it's alleged that Mr. Clifford and Mr. Altman—that Mr. Clifford and Mr. Altman in a rights offering conducted in July 1986, Mr. Clifford purchased 4,495 shares of CCAH at $2,216 per share; Mr. Altman purchased 2,247 of CCAH at $2,216 per share.

I can also say that the notice that was issued by the Federal Reserve Board indicates that in 1987 Mr.—I'm sorry. In 1988, Mr. Clifford sold 3,200 of the shares for $6,800 a share. Mr. Altman sold 1,600 of his shares for $6,800 a share.

Senator BROWN. Thank you. One last question if I may, Mr. Chairman. I would be interested in knowing your view as to whether or not it would be of value to ask for audited financial statements from individuals when they are making applications. Wouldn't that have solved some of this problem?

Mr. TAYLOR. Not if they were the kind of audits that were done on BCCI. I mean, a serious answer is that we oftentimes find that an audited statement does not necessarily give you the picture that you would expect it to, and it's sorely disappointing that that happens as frequently as it does.

Senator BROWN. Well, I can appreciate if you are talking about an international bank, but if you are talking about an individual financial statement, surely if someone has dramatically misrepresented their net worth, a financial—an audited financial statement is of great value, is it not?

Mr. TAYLOR. It certainly doesn't hurt a thing. It certainly can't detract. But I mean, it is not necessarily a comprehensive statement of truth, unfortunately.

Senator BROWN. Well, I assume without knowing the substance of those statements, if someone showed the ability to buy hundreds of millions of dollars worth of stock and it turns out they have nothing in the way of assets, a basic check of those financial statements could have shown that—turned that up, could it not?

Mr. MATTINGLY. Senator, that's exactly why the Federal Reserve requested detailed financial statements. The individuals—these Middle Eastern investors who the Fed was told were going to buy this stock are very—the statements show that they are wealthy. There are a number of them who are rulers of emirates of the United Arab Emirates.

Senator BROWN. One last question. My understanding is Mr. Clifford is the chairman of First American and Mr. Altman is its president. I also understand that you have the authority or the ability to remove them or replace them with officers or directors that are not tainted by connects to BCCI. Is it your intention to exercise that authority?

Mr. MATTINGLY. As I indicated, Senator Brown, the Board's investigation is continuing, and when we obtain evidence that indicates that enforcement action should be taken, we take it. Other than that, I really would not like to comment on the status of the decisionmaking going on within the Federal Reserve about what additional supervisory—what specific additional supervisory actions should or could be taken next.

Senator KERRY. But that is within the purview of the Board?

Mr. MATTINGLY. The Federal Reserve Board has authority under the statute to remove a director or an officer of an American Bank or bank holding company upon—if it meets certain tests. There has to be a violation of law, damage to the bank, and so forth.

Mr. TAYLOR. I might add, not as it relates to this case, but the removal of an officer from a U.S. bank is no easy task. It is very difficult, in a legal sense, to do that, and in fact we have offered corrective language, have we not?

Mr. MATTINGLY. We have proposed corrective language.

Senator KERRY. What, if any, action is the Fed taking to protect records and guarantee the records are not destroyed?

Mr. MATTINGLY. Senator Kerry, when we commenced our investigation one of the first things that we did was to take physical possession of every piece of—all of the CCAH records that we could get our hands on.

Now, there are certain records that we were not—that we have not yet been able to gain access to because of claims of attorney-client privilege. There were procedures put in place, however, to safeguard those documents, but when anyone told us of documents we acted. When we were told that there were records at the Miami agency that were useful for our investigation, we issued a subpoena, and we have thousands of boxes of documents from the Miami agency under subpoena. When we are told of information, we go after it.

Senator KERRY. Senator Cranston?

Senator CRANSTON. Thank you very much, Mr. Chairman.

Am I correct in my understanding that BCCI has or had representative or agency offices in Washington, DC, New York, Miami, San Francisco, Los Angeles, Boca Raton, and Tampa?

Mr. MATTINGLY. Senator Cranston, they had offices in those cities. In Washington, DC, was what's called a representative office and in Houston it was a representative office. In others there were agencies.

Senator CRANSTON. Are they still active and open?

Mr. MATTINGLY. On July 5, there were two left. There was one in Los Angeles and there was one in New York, and both of those were seized on July 5 by the State of California and the State of New York.

Senator CRANSTON. What about the agencies?

Mr. MATTINGLY. Those were agencies.

Senator CRANSTON. I mentioned this morning some banks with some sort of relationship in some other States, or in addition to those we have been discussing.

One is the former Bank of Commerce, now First American, in New York. In Florida, the former Bank of Escambia, now First American of Florida. In Maryland, former Financial General, now

First American, Maryland. In Virginia, former Financial General, now First American, Virginia, and in Tennessee, First American.

First, am I correct in my understanding that these are not connected with First American here in Washington?

Mr. MATTINGLY. No, they are. First American here in Washington, DC, owns most of the banks directly that you named. They own a bank in Washington, DC, a bank in Maryland, a bank in Virginia, a bank in New York, a bank in Tennessee, and a bank in Florida.

Senator CRANSTON. Is that within a holding company?

Mr. MATTINGLY. Yes. It's a holding company and they own subsidiary banks.

Senator CRANSTON. Regarding the Independence Bank of Encino out in California and part of Los Angeles, does—or did Ghaith Pharaon own the Independence Bank?

Mr. MATTINGLY. Yes.

Mr. TAYLOR. Yes and no.

Mr. MATTINGLY. The bank was bought in his name. We allege that BCCI used Mr. Pharaon as a nominee to purchase the bank.

Senator CRANSTON. Is he still the owner?

Mr. MATTINGLY. He is the record owner.

Senator CRANSTON. What is the current status of that bank?

Mr. MATTINGLY. That bank is under a divestiture. BCCI is under a divestiture order from the Federal Reserve to dispose of that bank as promptly as possible.

Senator CRANSTON. Have there been transactions between Independence Bank and the BCCI office in California or with other BCCI institutions?

Mr. MATTINGLY. The Federal Reserve issued an order against BCCI in connection with the Independence matter in May of this year and that order was intended to terminate the transactions between the bank and the BCCI. There were some transactions, however, between Independence Bank, I believe, and BCCI's operations in the United States. Those transactions are being looked at by the Federal Reserve.

Senator CRANSTON. Were any former BCCI employees employed by Independence Bank?

Mr. MATTINGLY. Yes. There was a BCCI employee named—yes. There was a BCCI employee who, our information is, negotiated the acquisition of the Independence Bank and then was—our indictment says was—then put in as the chairman or chief executive officer of Independence Bank.

The Federal Reserve has issued an action removing, barring that person. He's no longer at Independence Bank, but there's an action outstanding to keep him out of U.S. banking in the future.

Senator CRANSTON. Ghaith Pharaon, while owning the Encino Bank on behalf of BCCI, also helped BCCI acquire 25 percent of CenTrust in Florida, according to the Federal Reserve order of July 29 which just came out. Can you tell us how, and for what purpose, Pharaon and BCCI obtained an interest in this failing S&L?

Mr. MATTINGLY. Senator Cranston, the Federal Reserve—the focus of the Federal Reserve's investigation—has been on the First American organization. In the course of that investigation, we

come across other information that BCCI has acquired banks and we act on it.

In this particular case, the CenTrust Savings Bank in Florida, we came across that within the last 3 or 4 weeks. We found some documents in London that indicated that in fact BCCI had funded Pharaon's acquisition and that the shares had been pledged to BCCI and that BCCI had voting control over those shares. I cannot answer your question about why BCCI acted in that way.

Senator CRANSTON. Regarding First American here in Washington, does the Federal Reserve have any questions about whether officials of the Government of Abu Dhabi may have violated U.S. laws in acquiring the bank?

Mr. MATTINGLY. Senator, again the Board's investigation, as I indicated before, is looking at all aspects of this thing. As we get evidence, we act on it. The indictment that the Federal Reserve issued on July 29 does not charge the Government or ruling family of Abu Dhabi with illegally acquiring control of First American.

Senator CRANSTON. But that may be a matter that is being looked at, is that correct?

Mr. MATTINGLY. We are looking at all matters in connection with this case.

Senator CRANSTON. What is the current financial status of First American? For example, has new capital been placed in First American in 1991?

Mr. TAYLOR. That's correct.

Senator CRANSTON. Can you tell us by whom and how much?

Mr. TAYLOR. Yes. The Abu Dhabi Government and Abu Dhabi investment authority and Abu Dhabi ruling family since—really since, let's say, September 1990—within the last year, has placed approximately slightly over $200 million into First American, some of it to deal with debt at the holding company level and some of it to put into capital of the subsidiary banks.

Basically what happened in the beginning of the year is we asked the other agencies—the Federal Reserve is not the primary supervisor of any of these banks, but we asked and received the cooperation of the other supervisors, the Comptroller of the Currency, the FDIC, the various States involved, and they have examined the bank. What we then did was go to the Abu Dhabi people and say that the capital requirements of the supervisors are x, and we expect you to put that in there. And they did, and a little more actually.

So they've been fairly cooperative, even though they fully understand that they're under—that the whole thing is to be divested as soon as possible.

Senator CRANSTON. Do you know if any commitments were made by the U.S. Government in return for this infusion of capital?

Mr. TAYLOR. None that I know of, and I'm the one who asked for the money.

Senator CRANSTON. Mr. Taylor, you mentioned in 1987 criminal referral by——

Senator KERRY. Would my colleague yield for just a minute? We are trying to cover some logistics here. We are almost at 4 p.m. We have not had the State Department folks on yet.

What I am going to do, with the permission of my colleagues, is suggest that we put State Department's current statements in the record as if read but not proceed forward to question them today, and build off those and have them back at a time when we have more time to pursue those questions, because I think there are going to be limits to what we can digest, and we do have another—we want to try to deal with the issue of Peru and so forth. Is that agreeable?

Senator WOFFORD. Yes.

Senator CRANSTON. Yes.

[The prepared statements of Messrs. Borg, Kreczko, and Burleigh follow:]

PREPARED STATEMENT OF PARKER W. BORG

Mr. Chairman: Good afternoon. I am Parker Borg. I have been Deputy Assistant Secretary in the Bureau of International Narcotic Matters at the Department of State since May 1989. I would like to focus my statement on the narcotics money laundering issues arising out of the BCCI affair.

The Bureau of International Narcotics Matters (INM) works with other Bureaus at State and other U.S. agencies in the development of narcotics money laundering policy, strategy and implementation. While State plays an important role in policy formulation, it is not the lead agency in implementation, but cooperates on a day-to-day basis with Justice, Treasury, the Drug Enforcement Administration, Customs and other agencies.

Some examples of INM's efforts against money laundering might be useful. INM is a member of the U.S. delegation to the Financial Action Task Force (FATF); our staff monitors money laundering developments around the world, and participates in numerous international meetings, including U.S. delegations to both bilateral and multilateral meetings, some of which it chairs. INM develops the money laundering chapter of the annual International Narcotics Control Strategy Report, known as the INCSR. We draw on information from Embassies, the intelligence community, the law enforcement and the financial affairs agencies. That information has helped detail illicit activities undertaken by BCCI worldwide.

In 1986, Congress mandated that narcotics-related money laundering be one of the three criteria for making the Presidential determination to certify whether governments were cooperating on international narcotics control matters.

As a result, we decided to add a chapter devoted specifically to money laundering in the INCSR beginning with the March 1988 Report. The 1991 report contained a money laundering chapter of 63 pages, with detailed reports covering 122 governments. Each of the four annual reports since 1988 has contained information on investigations that involved BCCI, although legal and intelligence sensitivities prevented us from identifying BCCI by name in as many cases as we would have liked.

The 1989 INCSR provided 13 paragraphs of discussion of the charges against BCCI and its officers, resulting from Operation C-Chase, a U.S. Customs operation, which focused inter alia on BCCI operations in the United States and overseas. A follow-up report on this investigation of BCCI was provided in the 1990 and 1991 INCSR reports to Congress.

The March 1991 Report noted as a final tally of results:

—Operation C-Chase resulted in the arrest of 53 individuals, 9 of whom were high-ranking BCCI officials;

—BCCI had pled guilty to one count of conspiracy and 28 counts of money laundering;

—BCCI SA had pled guilty to one count of conspiracy and two counts of money laundering;

—These convictions resulted in BCCI's forfeiture of approximately $15.3 million in criminal penalties to the United States;

—Five BCCI officials in Florida and two in the United Kingdom were convicted of money laundering conspiracy and given prison sentences;

—From BCCI forfeited funds, we shared $2 million with the Government of France and $3 million with the Government of the United Kingdom through the U.S. Customs asset sharing program.

—We noted also the role of the United Arab Emirates in the ownership of the bank and their pledge of cooperation in the investigation of BCCI operations.

What have we learned?

The BCCI affair and other investigations have demonstrated we need controls that are specific to narcotics money laundering. BCCI has figured in several narcotics money laundering investigations, but it is by no means the only bank through which drug proceeds have been laundered. We do not know how many drug dollars may have been bottled up by the closing on about July 5 of BCCI branches around the world, but we know enough about their global networks to know that narcotics money laundering did not stop on that date.

Where there is a criminal conspiracy to conceal money transactions and a deliberate will to circumvent reporting and other disclosure requirements, even the best narcotic countermeasure programs with the most comprehensive of laws are vulnerable to exploitation.

What are we doing?

What we can do, and are doing, is to understand the methods used to launder money, through BCCI and other banks as well, and continuously refine our countermeasures while expanding our networks of cooperation.

Working bilaterally and through multilateral organizations, the United States has become a leader in the effort to expand the global consensus on good banking practices to prevent narcotics money laundering.

Our efforts have promoted initiatives against money laundering over the last 3 years as an important foreign policy issue as well as a financial management priority in many key financial center countries. These priorities are reflected in wholesale changes of laws and regulations in many countries.

Cooperation between the financial and enforcement communities in these governments has improved considerably, abetted in good part by the ratification of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention), the adoption of the recommendations of the Financial Action Task Force, the approval of the European Community's new policy directive and other commitments—and especially by the deliberations which led to the drafting and approval of these international accords.

We have addressed these concerns vigorously on a bilateral basis with numerous governments, including countries as diverse as the United Kingdom, France, Switzerland, Austria, Australia, Panama, Luxembourg, Hong Kong and Singapore. In the past year, we have participated in regional discussions about money laundering in Latin America, the Middle East, Africa and Asia, where we have promoted the findings of the FATF.

In accord with the Vienna Convention and FATF recommendations, numerous countries have adopted or are now deliberating provisions which criminalize money laundering, regulate the flow of currency and monetary instruments, mandate records of currency and other monetary instrument transactions, require declarations of beneficial owners of accounts, and compel disclosure of suspicious transactions.

Banks and bankers are compelled by due diligence conventions and other sanctions in numerous countries to accept responsibility for ensuring that their institutions take affirmative steps to prevent narcotics money laundering. These changes, and a much improved attitude on international cooperation, have strengthened law enforcement agencies on every continent, and help ensure that the kinds of narcotics-related transactions attributed to BCCI and other banks do not recur.

Thanks to the adoption of these new laws and regulations, we believe banking systems in many key countries are less vulnerable today. These changes result from a growing international conviction that drug trafficking cannot be halted unless we deprive trafficking organizations of their vast proceeds and develop a shared sense of responsibility for reducing the production, trafficking and consumption of drugs, which have been increasing dramatically in Europe and Asia.

We believe this challenge is becoming more complex. As we noted in the 1991 INCSR, we are detecting money laundering schemes involving a second tier of countries which were not of major concern to us 3 years ago. Traffickers, and more particularly their professional money managers, are actively seeking those countries and territories where there are central banks with minimal capabilities, financial systems with limited controls on foreign exchange, and restrictive bank secrecy practices. We are responding by extending the dialogue throughout the world.

While compliance with the Vienna Convention and the FATF recommendation will remain high priorities, the challenge for the future will also include the application of these same standards to non-bank financial institutions. We need to work to tighten requirements for incorporating or licensing businesses which might engage in financial transactions or make use of bearer shares and certificates. We need to develop means to regulate exchange houses and other traditional family fi-

nancial systems which are at the core of financial exchanges in many developing countries around the world.

In summary, we have been aware of BCCIs involvement in narcotics money laundering for a number of years, and have indicated that awareness in our reports to Congress. Working with information from the Embassies, the law enforcement and intelligence communities, we have acted on the lessons learned from the BCCI experience, on how banking systems can be penetrated and manipulated. By working with enforcement agencies as well as policymakers at Justice and Treasury we have formulated recommendations for the Financial Action Task Force and other multilateral organizations, as well as for use in our bilateral negotiations with other financial center countries on cooperative countermeasures. We have made important progress in the last few years, but there is a lot more to do.

PREPARED STATEMENT OF ALAN J. KRECZKO

Mr. Chairman and Members of the Committee: Good morning. I am Alan J. Kreczko, Deputy Legal Adviser at the U.S. Department of State, and I am pleased to be here with you today to provide the Committee with information relating to the Department's efforts to facilitate the ongoing investigation into the operations of the Bank of Commerce and Credit International (BCCI).

Let me begin by emphasizing that the State Department has viewed this matter from the outset as one properly conducted and controlled by law enforcement and bank regulatory officials. The Department has undertaken to cooperate to the fullest extent in assisting the various investigative efforts of the Federal Reserve and the Department of Justice.

With the support of our embassies and consulates abroad, the Department has on various occasions provided direct assistance to U.S. investigative authorities. While I cannot disclose in public all of the details of our involvement, we have, for example, obtained and distributed certain background information to U.S. investigators, and provided advice and technical assistance to the Federal Reserve in connection with their investigation of BCCI.

We have also assisted in providing such investigators with access to bank records, as well as opportunities for discussions with current and former bank officials, stockholders and others in possession of relevant information concerning the bank's ownership structure and overseas operations. We are, of course, pledged to continue our involvement, particularly with respect to facilitating contacts between U.S. government officials and foreign government investigative agencies, and current or former foreign government officials. In addition, the Department has endeavored to keep itself informed, of the course of the various investigations so that we would be aware of, and be able to prepare for, any foreign policy implications.

The Committee has indicated its interest in pursuing our understanding of the history of BCCI, in addition to a wide range of foreign policy questions which may flow from the recent disclosures and charges in connection with that history. As to the details of BCCI operations in the United States and abroad, the State Department will defer to the Federal Reserve and the Justice Department, both of which undoubtedly have a far greater understanding than do we, in the wake of their investigative efforts to date.

In terms of the broad implications for our foreign policy, I can state that we have not seen an adverse impact on our bilateral relations with the countries whose nationals have been named in the recent Federal Reserve enforcement action. We have repeatedly made clear that from our perspective our BCCI investigation is primarily a law enforcement matter: persons doing business within the United States must obey the laws of the United States or face the consequences for failing to do so.

While we will try to be responsive to the Committee's questions, I would note that we are necessarily constrained in our testimony for several reasons. First, as the Committee is well aware, there is an ongoing criminal investigation of BCCI and its operations being undertaken by the Justice Department. We are not privy to the details of this investigation, but even if we were, we would not wish to say anything that might jeopardize or complicate these efforts. Second, given the early stage of this investigation, we are unable to reach firm conclusions on the potential implications for our foreign policy. In light of the complexity and worldwide scope of this scandal, until the investigative efforts of the Federal Reserve and the Justice Department have been completed and all of the details of the BCCI operations have been made public, and other governments have completed their actions, the State

Department will be unable to systematically review the full extent of the implications of this case.

Having said that, I would note that many of the policy issues raised by the disclosures to date are ones with which the State Department is quite familiar. We have for some time been well aware of the ability of international narcotics trafficking organizations to employ the resources of sophisticated financial institutions, and we have long worked with this Committee on efforts to fight the vexing problem of money laundering. Similarly, we have made a concerted effort in the past few years to develop a comprehensive approach to fighting international terrorist organizations.

With me today are representatives from the Department's Bureau of International Narcotics Matters, and the Office of the Coordinator for Counter-Terrorism, who will speak to the policy issues addressed by their respective offices.

PREPARED STATEMENT OF A. PETER BURLEIGH

Mr. Chairman and Members of the Committee: I am A. Peter Burleigh, the Coordinator for Counter-Terrorism at the Department of State. I have recently assumed this position, replacing Ambassador Morris Busby. I look forward to working closely with this Committee particularly, in pursuit of our common goals.

I have a short statement which addresses the links between BCCI and the Abu Nidal Organization (ANO) and the actions the U.S. Government took and continues to take in cooperation with other governments to disrupt the ANO's commercial enterprises. The Committee will understand that there may well be issues raised which I cannot discuss in "open session", given the criminal proceedings which are underway and the need, as always, to protect intelligence sources and methods.

What I can say about BCCI and its links to terrorists can be summarized as follows:

- The ANO organization, in view of its lethality, its international reach, and its virulent anti-American and anti-Western bias, has been and remains a significant threat to U.S. interests. A major and continuing objective of U.S. counter-terrorism policy has been to eliminate the ANO's terrorist capacity.
- In 1986, the intelligence community developed and disseminated information that linked ANO activities to a BCCI branch in Europe. We learned that Sabri al-Banna, the leader of the ANO had established significant business operations through the use of front companies. Operating through a business center in Warsaw, and under the direction of his key financial aide, the notorious Samir Najmeddin, the ANO traded profitably and successfully in weapons, construction services, and other business enterprises. We launched a major diplomatic effort to have the concerned governments—which included the previous Communist regimes in East Germany as well as Poland—expel the ANO personnel responsible for these businesses and to close down the companies themselves.

Mr. Chairman, the efforts we undertook in close cooperation with other governments to disrupt the ANO's commercial activities have been comprehensive and successful. The business front companies that financed a major portion of ANO's activities have been shut down. We have shared with many friendly governments information on the ANO's business activities and helped alert these governments against similar activities. The United States and other countries have strengthened their domestic legislation against financial support for terrorist groups; some of the U.S. proposals are incorporated in the "Crime Bill" recently passed by the Senate.

Meanwhile, the ANO itself has experienced significant internal purges. Nevertheless, it still retains major capabilities to engage in terrorism.

The efforts that we undertook regarding ANO are another example of the Administration's commitment to counter the terrorist threat posed to American interests around the world. Consistent with the three-pronged strategy for countering the international terrorist threat explained by my predecessors in previous appearances before this Committee, the United States will continue our long-standing "no concessions" policy, our efforts to convince state sponsors to withdraw their essential support to terrorist groups, and a variety of initiatives that we refer to as "practical measures." Included among these "practical measures" are efforts such as those we undertook against the ANO and its commercial fronts.

Mr. Chairman, this completes my prepared statement. I will be pleased to address your questions as fully as possible, consistent with the public nature of this proceeding.

Senator KERRY. I am sorry to interrupt you.

Senator CRANSTON. Mr. Taylor, you mentioned in 1987 a criminal referral by an examiner to Justice regarding BCCI in money laundering. Do you know if that led to a criminal investigation?

Mr. TAYLOR. I do not. I know that a criminal investigation resulted within 1 year—within 1 year after that. I think it was in April 1987 that the referral was made and the raid in the Tampa situation occurred in October 1988, I believe, approximately 14 months later.

Senator CRANSTON. Mr. Mattingly, you mentioned a criminal referral also. Was that the same one or a different one?

Mr. MATTINGLY. The criminal referrals that I mentioned were with respect to when we obtained evidence in January that suggested that there was an illegal acquisition by BCCI of the First American organization, the CCAH stock. We made criminal referrals to Justice in connection with that.

Senator CRANSTON. Do you know if that led to a Justice Department criminal investigation?

Mr. MATTINGLY. I'm not at liberty to answer.

Senator CRANSTON. Back to the matter of infusion of capital. When did the last capital come into First American?

Mr. TAYLOR. The last capital came into First American I believe in June, the first or second week in June—the last week in June. It was either mid to late June, just prior to the closing, I might say.

Senator CRANSTON. Was that a large infusion?

Mr. TAYLOR. No. I believe the capital that went into the banks was something on the order of $39 million—pretty sizable—and of course at the same time I believe Abu Dhabi people assumed the holding company's debt, which was somewhere on the order of magnitude of $80 million.

Senator CRANSTON. In addition to the several banks that I have mentioned that you verified have been owned or affiliated with BCCI in the United States, do they own or control any businesses beyond that in our country?

Mr. TAYLOR. Not that I am aware, Senator. Virgil probably has more from the investigation.

Mr. MATTINGLY. Senator, I don't think the investigation has turned up any evidence of that, but you know, according to the reports they filed with the Fed they didn't own any banks in the United States either, and one has to question their credibility on all points.

Senator CRANSTON. That would not be a thing that you would be looking into as much as you would be looking into financial institutions.

Mr. MATTINGLY. Our investigation—it's difficult to keep it focused, but our investigation is directed and focused at those banks, but to the extent that we get any evidence of any other illegal conduct or suspected illegal conduct, we make appropriate referrals.

Senator CRANSTON. Mr. Chairman, I have just a few more questions, but my time is up.

Senator KERRY. Well, let me just see if Senator Wofford has questions. He has not had a chance. Then we will come back to you, Senator Cranston. Senator Wofford?

Senator WOFFORD. I have three simple questions. Did the CIA ever tell you that BCCI owned First American?

Mr. MATTINGLY. Senator, I do not believe so. We have—as you can imagine, we have searched our records. There is no indication that that information was conveyed to the Federal Reserve. I have asked the individuals at the Board who routinely receive information from CIA. They indicate they do not recall ever seeing that document. They believe they would have recalled seeing a document if it had in fact been submitted to the Fed.

Senator WOFFORD. Did the Treasury Department ever tell you that BCCI owned First American?

Mr. MATTINGLY. Senator, I can only speak for myself. I have reviewed the record in this matter. It is voluminous. I find no evidence that anyone—that the Treasury advised us. I cannot say that they did not advise some other official who did not make a note of it. I just can't say.

Senator WOFFORD. By "you," I mean you and the corporate body, too, so I appreciate the answer.

Mr. MATTINGLY. Well, we looked through the records and we can find no indication that information was transmitted to us.

Senator WOFFORD. Do you think they were obligated to tell you?

Mr. MATTINGLY. I would hope that when any American or U.S. agency finds information about irregularities under the Bank Holding Company Act or the statutes that the Federal Reserve administers, we would hope that that would be referred to us. We try to do the same when we come across information about irregularities under other—involving other agencies.

Mr. TAYLOR. My understanding, though, is that the information in the CIA report is more or less speculative in the sense that it's not documented with any evidence that you could follow up on, that it makes kind of the assertion. We have had that assertion, but it doesn't——

Senator KERRY. Well, the assertion—the CIA document, if I recall correctly—I do not have it in front of me—states as a matter of fact that they tried to buy the bank shares in 1982, 1981, were rebuffed, but completed control—completed the transaction and takeover. It states it as a matter of fact.

Mr. TAYLOR. Six months later, right?

Senator KERRY. Six months later. It says this was completed—the one thing they do say is, we do not know the exact structure of ownership, but they state as a matter of fact it was completed and purchased.

Mr. TAYLOR. Yes, and that may have been helpful in the sense of alerting us——

Senator KERRY. May I say also that I have seen the entire rest of the document, and as I said earlier I cannot understand—there is no national security in it whatsoever that this Senator can see, and I think the entire document ought to be released, and we are going to ask for it.

Senator WOFFORD. I appreciate Senator Kerry's helpful persistence right now, but most of all his persistence in getting at this matter which turns out to be persistence that was well-justified.

Could I turn to the procedure by which the Federal Reserve checks the background of foreign investors with the CIA, and forgive me if you have gone through this before, before I was able to get here. Could you just take us through that procedure and show

us what the paper trail would be in checking the background of foreign investors with the CIA once again?

Mr. MATTINGLY. Well, in this particular case—as it stands now, we check foreign investors with law enforcement authorities, the DEA, CIA, FBI—there are detailed procedures to do background checks on any foreign individual or company that seeks to acquire an American bank.

In this particular case, the information that we had, which listed 10 or 13 Middle Eastern investors, was sent to State Department, CIA, Commerce—at least those three. We received back no adverse information from those three agencies.

Senator WOFFORD. So you did not have that, and therefore you did not take any action?

Mr. MATTINGLY. No. We got back affirmative responses from the CIA and the State Department that they had no objection, no adverse information.

Senator WOFFORD. No more questions right now.

Senator KERRY. Senator Cranston?

Senator CRANSTON. I want to ask you just a few questions about central banks and their problems out of all of this. Has the Federal Reserve learned of the use of BCCI by any foreign central banks?

Mr. TAYLOR. We have various reports of the use of BCCI by central banks. For example—not necessarily central banks, but by Governments. The Peruvians have been up to see us about that situation, and there are other rumors about various developing nation banks being involved with BCCI.

As yet, I don't believe they have documented—the receiver or any of the Bank of England people have documented—any specific deposits or losses to date by central banks, although it indeed may be in the works.

Senator CRANSTON. What are the implications of this for central banks with the sizable deposits of BCCI, and what are the implications for international financial markets?

Mr. TAYLOR. Well, I think the thing that has been almost deafening is really the lack of specific information yet, as it relates to any major loss. In other words, a loss that would really take some large bank or country or charitable institution down.

We think that most of the central bank activity—we are just not aware at this point of anything that has any dramatic impact as yet, although all of this is unfolding, and I would underscore that we watch it day by day and that when we make these statements we might indeed be forced to make another statement the next day.

Mr. MATTINGLY. Senator Cranston, I have some information from the Board's legal files in response to the question that Senator Wofford asked, and if it's permissible, could I read that into the record? This has to do with the Federal Reserve's background checks of those individuals in 1981.

Senator CRANSTON. Yes.

Mr. MATTINGLY [reading]. Board staff has consulted the Central Intelligence Agency and the Departments of State and Commerce to determine if they possess any information that would have any bearing on the integrity of these individuals and the other investors, or that would suggest that they should not be permitted to be

associated with the U.S. banking organization. Board staff was informed that the CIA has no derogatory information in its files, while individuals consulted at the Departments of State and Commerce stated their belief that there is no reason why the investors in CCAH and BCCI should not be associated with a U.S. bank.

Senator KERRY. That is what year? That is 1981?

Mr. MATTINGLY. Yes, sir.

Senator KERRY. That is 1981, and that is referencing specifically Sheikh Zayed and other——

Mr. MATTINGLY. Well, Sheikh Zayed was not an investor in the original application.

Senator KERRY. Kamal Adham?

Mr. MATTINGLY. Yes.

Senator KERRY. Well, that is Kamal Adham & Co. at that point in time?

Mr. MATTINGLY. Yes.

Senator CRANSTON. Would funds deposited by a central bank in any country——

Senator KERRY. Excuse me, was he not either former head or chief of Saudi Intelligence?

Mr. MATTINGLY. That is what was reported, yes.

Senator CRANSTON. Would funds deposited by the central bank of any of these foreign countries with BCCI be guaranteed in any way?

Mr. MATTINGLY. Not to our knowledge.

Mr. TAYLOR. They may in some cases have been wise enough to take collateral, and maybe not, and in that sense they would have a chance of a prior lien, but we are not aware of any insurance specifically.

Senator CRANSTON. One final, broader question. You spoke of the legislation that Senator Riegle, Senator Garn, and Senator Kerry have introduced to try to prevent things like this from happening in the future. Obviously, we have to give that a lot of scrutiny to make sure that it is as strong as possible, and the hearings there and in the Banking Committee now going on—the markup there and hearings here will lead, I hope, to strong legislation.

But let me ask this question: Can any American laws that we might write really deal adequately with what is an international problem, or do we not need to take a look at what strengthening of international regulatory institutions may be required to really cope with this kind of a situation?

Mr. TAYLOR. I think clearly it is—I mean, your question is in a sense rhetorical, and I agree with it. Obviously we must do something internationally. We just can't pass laws here, although it would be helpful in certain instances, but internationally I think it is very critical that we create, I think as indicated by prior witnesses, a greater sense of cooperation and information exchange and a certain setting of standard.

We've started that process in a number of areas through the Basel Committee on Banking Supervision that meets at the BIS. We meet there quarterly, and although sometimes it seems that progress is painstakingly slow, there have been very encouraging instances of breakthroughs in recent years. I point to the capital agreement, whereby we finally got an agreement that somewhat

defines capital and says how much a bank should have to operate internationally.

We had some success in an American-sponsored approach to money laundering whereby it was recognized by the member nations and the member central banks that using the banking system for illicit purposes was something that no one wished to permit. And, indeed, I think in the European countries that have reputations for secrecy, you see that secrecy perspective lessening, and you see more open philosophies, and you see more States in Europe sponsoring legislation against money laundering in favor of an openness that protects the banking system and the public from these criminalities.

Senator CRANSTON. I thank you both very much. You have both been very helpful, and I applaud your direct, concise, and brief responses to our questions. Thank you.

Senator KERRY. Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman. My apologies. We are marking up the banking bill in the Banking Committee, but I was anxious to come down for just a moment to ask the representatives here of the Federal Reserve particularly a question in response to a letter that I had received from a constituent regarding the BCCI settlement and the whole plea bargaining relationship.

I bucked the letter over to the Department of Justice, and the letter I got back had a sentence which I thought was interesting, and if I just may read that sentence: "Moreover, the bank has been placed on a 5-year probationary term which contemplates intense scrutiny of its activities by the Federal Reserve Board of Governors. Should BCCI violate its probation, the trial court could fine the bank $500,000 for each violation."

I guess at that point I would be curious—with this plea bargaining arrangement, which I am not really familiar with other than as it has begun to unfold in recent stories, did it trigger any sort of additional activity on the part of the Federal Reserve, or would you normally be involved in a situation such as this?

Mr. MATTINGLY. Well, I'll tell you what I know about that, Senator. The plea bargain that was negotiated between the Justice Department and BCCI, I believe one of the provisions——

[Pause.]

Mr. MATTINGLY. Senator Kassebaum, as a result of the indictment the Federal Reserve issued a cease and desist order in mid-1989 against BCCI requiring them to put in—their management and procedures were abysmal here in the United States, so the Fed put in a cease and desist order requiring them to clean up their act, have appropriate books and records and things like that, and that was—I believe that was done in June 1989.

The Justice Department then incorporated—when they had their plea agreement and conviction or guilty plea, they incorporated that order into that and therefore required BCCI to comply with the order through that mechanism also.

Mr. TAYLOR. But we were not a part of the plea bargain at all.

Senator KASSEBAUM. I realize that.

Mr. MATTINGLY. They knew that we had a cease and desist order, and they just simply incorporated in their plea agreement a re-

quirement that BCCI obey the Board's cease and desist order and if they failed to obey it, then they would be subject to the fines that you mentioned.

Mr. TAYLOR. Immediately upon the sting operation in Tampa, as soon as that happened, in conjunction with the States who were really the primary supervisor of these agencies, with their cooperation the Federal Reserve and the States immediately examined all of the agencies in the United States of BCCI to see if there was any more money laundering and to see if they were complying with reasonable procedures.

As a result of that, the two—the additional criminal referrals were made out of New York and the cease and desist order was issued to correct what we thought were rather substantial deficiencies in the recordkeeping and in the controls.

Senator KASSEBAUM. Was it that cease and desist order—and you say that was June 1989, that you first entered that?

Mr. TAYLOR. I believe that's correct.

Senator KASSEBAUM. It did not seem to have much effect, did it, at that point?

Mr. TAYLOR. No.

Senator KASSEBAUM. Well, I came in late, and I expect you have covered a lot of this territory, and I do not want to keep you here any longer, but I do appreciate the answer to that, and I regret that I came so late because I would like to have heard some further testimony. I will read your statements.

Thank you. Thank you, Mr. Chairman.

Senator KERRY. Thank you, Senator. Thank you very much.

First of all, let me ask just a few questions before we wrap up. You hear of varying amounts of money that are supposedly just gone. In England, they are talking about $5 or $6 billion, may be more. We have heard $4 to $8 billion. Some people say more than $10 billion. Is that correct?

Mr. TAYLOR. All of those figures are correct, as far as I know. It's very hard to get a sense of where it starts and where it stops. I think only when the liquidator really gets a chance to see what is there and what isn't there will you have any accurate figures. It's pretty safe to say, from the statements that I've seen, that there is massive fraud involved. Massive fraud would mean massive money. Whether it's $5 or $10 billion, it's hard to say.

Senator KERRY. Do you have any indication of where the money that we do know about, whatever concrete number there is—I think one of the complaints alleges $4 billion to $5 billion. Where is that? Where did it go?

Mr. MATTINGLY. We would love to know. That is the unanswered question in this matter, which is where did all of that money go?

Senator KERRY. But there is no doubt that it has gone somewhere.

Mr. TAYLOR. There are clearly loans that have been made that the accountants feel are not repayable, and those are substantial. Some to various types of companies, shipping companies, real estate interests, oil, whatever, but I mean, it is not a case of—I mean, there may indeed be basic fraud, but there are also lending problems where the loans are overvalued on the books.

Senator KERRY. Were they overvalued on the books as part of the scheme to enrich people, or were they overvalued because these people were doing bad business?

Mr. MATTINGLY. It might be a bit of both. It's clear they were doing very bad business. I mean, from what we've been able to see, everything they touched turned to a loss and they had to cover those losses up. I mean, this is a bank that showed profits. Its reports that were filed showed profits every year. The profits were, our evidence suggests, fictitious.

Senator KERRY. Well, you talked about sham transactions with respect to the purchase in Washington, DC.

Mr. MATTINGLY. Correct.

Senator KERRY. Do you have evidence of other sham loans?

Mr. MATTINGLY. Senator, those are the ones that we're looking at. We do not have any direct evidence of other sham loans.

Senator KERRY. Well, is it not true that the Price Waterhouse report which you are going to deliver to us very shortly is indicative of that kind of——

Mr. TAYLOR. I think the Price Waterhouse report will show you, you know, where some of the bad loans—it'll show you the names of bad loans, and so forth, but it is not in sufficient detail to really give one a grounding in what the loss amount is.

Senator KERRY. Now, with respect to that, this is the report that triggered the closing, correct?

Mr. TAYLOR. This is the report——

Senator KERRY. This is the report by the hired auditor. You are saying it is not sufficiently detailed to be able to tell you what happened, yet it is an audited report?

Mr. TAYLOR. No, I think it's sufficiently detailed. I mean, one of the statements in the report that captures your attention is one that says we cannot put a balance sheet together on this bank, so we don't know what it has and what it owes to whom.

Senator KERRY. But do you not think it would be interesting for Price Waterhouse to come in here and explain its auditing procedure on this bank?

Mr. TAYLOR. Well, you know, I think what they found—and I think it was really quite—I mean, it's quite a courageous audit report. It says that——

Senator KERRY. Well, let me ask you about that. It conducted an audit report how many months prior to that?

Mr. TAYLOR. I think the last statement was 1989, so that would have been——

Senator KERRY. How about October 1990?

Mr. MATTINGLY. There was a statement that they—that was the critical statement that I discussed in my testimony, October 3, 1990.

Senator KERRY. Prior to that there was one in 1989. Well, what happened to Price Waterhouse that suddenly between 1989 and 1990 they noticed their figures were wrong?

Mr. TAYLOR. I would have to say that it is a good idea to get Price Waterhouse in here and let them explain it.

Senator KERRY. Now, what are the foreign implications of the central bank infusions that we are learning about in this? Are there implications?

I mean, in Peru right now there are a lot of questions. We are going to be hearing from witnesses probably tomorrow morning now, at the rate we are going, who are going to describe some of the problems down there. We have got problems in Nigeria. We have got other countries that are reeling from this. Are there implications for us in that context?

Mr. TAYLOR. Well, I think there are implications to the extent that that turns out to be the case, and it is material enough to adversely affect those nations' central banks ability to carry out their mission. We just don't know if that's the case as yet.

Senator KERRY. OK.

Now, Mr. Mattingly, at the last hearing we had I asked you questions about Mr. Adham, and we just talked about it briefly. Mr. Adham was one of the original CCAH shareholders and was a former head of Saudi Intelligence, and that was known at the time, correct?

Mr. MATTINGLY. That was reported at the time, yes.

Senator KERRY. But did anybody advise the Fed that another original investor in CCAH, Mohammed Irvani, was funding former CIA director Richard Helms' Washington consulting office? Were you aware of that?

Mr. MATTINGLY. Senator, I have looked through the records. I have seen no evidence of that. I have seen no evidence that anyone reported that to us.

Senator KERRY. Or that you knew of it then? Did the CIA advise the Federal Reserve that Adham had employed agency personnel in his business ventures?

Mr. MATTINGLY. Agency personnel? CIA personnel?

Senator KERRY. Correct.

Mr. MATTINGLY. No, sir.

Senator KERRY. After the 1981 takeover, was the Federal Reserve ever advised by the CIA or the State Department or the Treasury Department or the Justice Department that First American was owned by BCCI? Did any one of those entities ever advise you, formally or otherwise?

Mr. TAYLOR. We have—I have no record of that, and we've searched the record and will continue to search the record.

Senator KERRY. What would the format be for such notification? I mean, would you get a letter? Would you get mail? This was pre-fax, I believe.

Mr. MATTINGLY. Pre-fax, yes. This would probably have been a letter or some sort of memorandum that would be submitted to the Fed.

Senator KERRY. Normally when a matter is called to your attention of that import that is the normal process, is that correct—the customary business procedure, as we say?

Mr. TAYLOR. Yes. You know, once again——

Senator KERRY. Those records have been checked and there is no record at the Federal Reserve of any notification of ownership?

Mr. TAYLOR. I know of none.

Mr. MATTINGLY. By——

Mr. TAYLOR. By Treasury, CIA.

Senator KERRY. Treasury, CIA, State Department, or Justice?

Mr. MATTINGLY. Treasury, CIA, Department of Justice, State Department. Certainly not the CIA until just——

Mr. TAYLOR. Recently.

Mr. MATTINGLY. Until very recently.

Mr. TAYLOR. Everybody now seems to know it.

Mr. MATTINGLY. Senator, I—to the best of my recollection, no, not from those.

Senator KERRY. Well, do you want to go back to the record one more time and just be certain?

Mr. MATTINGLY. I will, and I will be happy to answer that for the record. The answer is "no."

Senator KERRY. Now, on page 2 of the July 29 press release announcing the civil money penalty, you make the following statement: "At the request of the U.S. attorney for the District of Columbia, the Board has deferred temporarily the assessment of substantial civil money penalties against individuals pending completion of the U.S. attorney's criminal inquiry." Did you meet personally with Jay Stevens regarding that?

Mr. MATTINGLY. No, we did not. Obviously, the Federal Reserve does not want to take any action or to do anything that would interfere with bringing the responsible parties to justice.

Senator KERRY. I understand, but did you make a judgment—did the Federal Reserve make a judgment that it wanted to impose civil penalties but that you were told by Justice that might interfere with the criminal process?

Mr. MATTINGLY. Senator Kerry, we sent the notices over to the Justice Department. There were civil money penalties assessed in the draft notices.

The Justice Department said that there were legal problems with the Federal Reserve—there could be legal problems with the Federal Reserve proceeding to assess civil money penalties, that a civil money penalty assessment could be—could preclude subsequent criminal prosecution of these individuals and the Justice Department——

Senator KERRY. What is the theory of law there?

Mr. MATTINGLY. It appears there was a Supreme Court case that came down—I think it's 2 years now. Halper, the *United States* v. *Halper*—which indicates that under certain circumstances—it may indicate that under certain circumstances a civil penalty, or a civil—a civil penalty could be so substantial that it could be punishment and trigger the double jeopardy clause.

The Justice Department hasn't made any decision on that, of course, but they are looking into that question and that is the reason for this——

Senator KERRY. No, fair enough. I just want to understand it, and I accept that.

Did you meet with anyone at the Justice Department in the course of the last couple of months regarding this matter?

Mr. MATTINGLY. We have had a number of meetings with the Department of Justice personnel about this investigation, yes.

Senator KERRY. Beginning in what period of time?

Mr. MATTINGLY. Oh, right after the criminal referral. We met with the—I met with the U.S. attorneys assigned to the case. The actual attorneys who are investigating this matter have met on

any number of occasions with Department of Justice personnel about this case.

Senator KERRY. Now, Mr. Mattingly, I know you have been very cooperative with the district attorney in New York, and we went through the issue of cooperation last hearing. This may be a hard question for you, but I am going to ask it.

Has anyone at Justice Department suggested to you that you should cooperate more with them than with the district attorney in New York?

Mr. MATTINGLY. No, sir.

Senator KERRY. It has never been suggested to you?

Mr. MATTINGLY. Not to me.

Senator KERRY. What about any of your investigators?

Mr. MATTINGLY. I haven't had that brought to my attention.

Senator KERRY. Let me ask you this. The complaint that you issued the other day suggests that—makes several references to the fact that BCCI owned CenTrust Savings & Loan in Florida. When did the Fed learn of that connection, and how?

Mr. MATTINGLY. Our investigators were in London trying to get documents. We were going to interview some witnesses—it was 2 or 3 weeks ago—interview witnesses and obtain documents with respect to the illegal acquisition of the National Bank of Georgia.

When we looked through some documents that were seized from BCCI's offices, we found documents in there that I described that indicate that BCCI actually had a substantial interest in CenTrust.

If I could, just about the Justice Department, one comment. I mean, we did go to them with this last civil money penalty of $200 million, and I want—they gave us the green light to proceed with that. I want that on the record. I would like to put that on the record.

Senator KERRY. To proceed with the civil penalty?

Mr. MATTINGLY. Yes. They gave us a green light to go ahead and assess the $200 million civil money penalty against BCCI.

Senator KERRY. Did they think it was a little steep?

Mr. MATTINGLY. They did not convey that to me, no, sir.

Senator KERRY. Do you have any evidence that the shredding of documents or destruction of documents that Mr. Blum referred to earlier in fact has taken place? Is there any way for you to determine gaps in the records you have, or partial?

Mr. MATTINGLY. We, with the seizure—with the seizure of the New York agency on July 5 we commenced inquiries to try to locate the files at the Washington, DC, representative office. The State of New York has taken action to secure those, as has the county attorney in New York, and I believe the Justice Department also.

Senator KERRY. Does that mean that you are having difficulty doing that?

Mr. MATTINGLY. I don't know the current status of that. I'm informed it has been done.

Senator KERRY. It has been done, so those have been secured in full, but you do not know whether or not some items are missing or not missing? You have no way of telling?

Mr. MATTINGLY. No, sir. We have not had the time to go through those files. We certainly intend to do so.

I might add that the California authorities have also seized the files at the Los Angeles agency, and they are in the process of going through those records to determine what is there.

Senator KERRY. Let me say that I am going to move on here. There are some sort of housekeeping areas of inquiry. There are a lot of detailed questions that we do not need to go through right now, but we would like to leave the record open so that some of those can be asked. We have been at this for a long time, and I do not want to—I think people are getting a little bleary-eyed. I know this Senator is.

Senator Jeffords, do you want to inquire for a moment?

Senator JEFFORDS. Just for a moment yes, although if Senator Cranston wants to go ahead, he was here ahead of me.

The New York grand jury indicted BCCI—I think it was count 4—for grand larceny committed against the American Express sometime after January 1, 1983. When did the American Government discover that American Express was a target of criminal activity by BCCI, if you know?

Mr. MATTINGLY. Senator, the first that we heard of that was in the indictment. The first that the Federal Reserve heard of that was when we received a copy of the indictment.

Senator JEFFORDS. Do you know of anyone else in the Government that had prior notice?

Mr. MATTINGLY. I do not, sir.

Senator JEFFORDS. I believe you testified earlier about some activity on the international scene looking at how to prevent further occurrences of such things. I think you talked about money laundering discussions and matters like that. Are there any other meetings or discussions going on as to what ought to be done at the international level to try to make sure that a BCCI does not occur again?

Mr. TAYLOR. I think first of all the Basel Committee continues and there are also efforts underway in the European group, the EEC Group, which is another bank supervisory group—and I am sure that when this BCCI thing is fully out on the table both committees—will look at it and try to take what actions are appropriate. I think it's very significant, at least from a U.S. perspective.

We are very happy to see the chairmanship of the Basel Supervisors Group pass to Jerry Corrigan of the Federal Reserve Bank of New York. He will chair that committee, and in fact he has been voted as the chairman, so the U.S. perspective will get a clear statement from the chairman's seat.

Senator JEFFORDS. Well, would that be the kind of group that would be looking at international mechanisms to observe what is going on and have regulatory authority in the international sector, or things along those lines?

Mr. TAYLOR. Yes. The Basel Supervisors Group consists of major industrialized countries—and the representatives of those countries that came to the meetings are basically central banks and bank supervisors. They have authority in their own countries and have powers in their own countries to make these kind of coordinated arrangements work. So it is the right body to be working with.

Sometimes they—some countries will have to go back and get their laws changed, but I think there has been progress, especially on money laundering. And I don't think there's anyone on the com-

mittee that feels anything else than the banking system shouldn't be used for criminal purposes at all and all are prepared to do what's necessary to make sure that doesn't happen.

Mr. MATTINGLY. I might just add a footnote to that, Senator Jeffords. The banking bill that's being marked up today has a provision, an important provision, in it that provides that if a foreign bank wishes to do business in the United States, the Board cannot give its approval unless the Board is satisfied that the foreign bank is supervised on a consolidated basis by its home country.

Senator JEFFORDS. Would these kinds of mechanisms apply to what you are doing, to monitoring the transfer of funds country to country?

Mr. TAYLOR. Well, I think that's one of the things that is being discussed, the whole question of the safety of the payments mechanisms, not just the use—the potential criminal use of it, but the effect of that criminal use should you have some kind of blowup. In other words, would you, in effect, stop the capacity of the world to clear its transactions?

So there is not only the interest in excluding the criminal element, but there is also the self-interest of the system itself, that only if the participating countries respect the system will it function properly.

So I think it's probably an area that needs work and should receive attention.

Senator JEFFORDS. I have certainly heard about the shell-game-type situations that we saw with BCCI and how they may or may not be criminal. You cannot really tell. But unless you are able to monitor a pattern of activity of those kinds of things——

Mr. TAYLOR. Well, over the years in banking supervision we've had the same problem domestically in the sense that you see someone abuse a bank in North Dakota and all of a sudden you find him down in New Mexico doing the same thing. And it's a sore disappointment to the examination business to ever allow that to happen.

I think that systems, and specially the electronic progress, is coming to the point where that type of thing is going to be much harder to do domestically and much harder to do internationally.

For example, we have a criminal referral system now among the agencies whereby we plan to have all criminal referrals exchanged, so that there's an automated record. Not just so that we have all the paper, but so that we have access to the paper, and so that we can type the name into the computer and have it tell us if anything exists, as opposed to just seeing boxes and boxes of file cabinets. And I think that type of thing is also working internationally.

Senator JEFFORDS. I know we have the international stock markets and futures markets operating. I am concerned as to how in the world we are ever going to know what is going on.

Thank you. Thank you, Mr. Chairman.

Senator KERRY. Thank you very much, Senator Jeffords.

Gentlemen, just before we wrap up here, has anyone at any level to your knowledge in any way at any time tried to interfere with the regulatory efforts of the Federal Reserve?

Mr. MATTINGLY. No, sir.

Senator KERRY. Mr. Taylor?

Mr. TAYLOR. No, sir.

Senator KERRY. Have you come across any evidence in the course of your investigation that indicates that anyone at any time anywhere has tried to interfere with other regulatory efforts in other States, or even within the law enforcement regulatory efforts?

Mr. MATTINGLY. I can't think of any offhand, sir.

Mr. TAYLOR. I can't, either.

Senator KERRY. Do you concur with the judgment of the committee that there is a legitimate concern with the change in the financial marketplace and the potential for criminal elements to move money as easily as they can, and to create cardboard cutout entities which mask true ownership and which in a sense threaten law enforcement's capacity as well as the sovereignty of some Governments? Is that a concern to the Federal Reserve?

Mr. MATTINGLY. Absolutely.

Mr. TAYLOR. Absolutely.

Senator KERRY. Is it your sense that we should be doing more with respect to money laundering and the tracking of the origin of funds?

Mr. TAYLOR. Yes.

Senator KERRY. That runs right up against the bank secrecy that has pervaded the system for these last 60 years or more, does it not? 90 years, maybe.

Mr. TAYLOR. I and a lot of my colleagues around the world in supervision feel that it's absolutely essential that that secrecy—no matter the respect for privacy—that there must be a way to stop the criminal element from using that as an excuse to just launder money, so we fully concur with the committee on that.

Senator KERRY. Is it fair to say that it is more than simply laundering money, but that it is a really false facade of business, that in some cases is not laundering money but is legitimately moving money into concerns. I mean, it is what used to happen here in this country with organized crime but now has far more ways of moving that capital. I mean, is it not really——

Mr. TAYLOR. It's the whole scope of illicit activity that really has to be looked at, Senator, and not just money laundering.

Senator KERRY. It has to be done without multilateral protocol?

Mr. TAYLOR. I think it would be difficult to have any—to participate in the world financial community while trying to do that just in isolation. I really think you must have a multilateral approach to it to be effective.

Senator KERRY. Is it not also fair to say that the G–7 at least, maybe the G–15 or something, but that the G–7 and G–5 certainly have the ability, because of the power of their currencies and the need to clear through their systems, to leverage the Cayman Islands, Luxembourg, Hong Kong, and various other places into a stronger standard of behavior?

Mr. TAYLOR. I think it's quite possible, and also leveraging a stronger sense of behavior within their own countries.

Senator KERRY. Why don't we do it? Why isn't it happening?

Mr. TAYLOR. Well, I think that, although, as I said, it looks painstakingly slow, I think that the mechanism is in place and there can be an effective multilateral effort through Basel. There has been on some things, and this just needs to have a priority.

Senator KERRY. Before we wrap up, we have legislative friends here from Peru and we have officials, previous officials from Argentina and Peru, and they have waited very patiently all day. I appreciate that. Our interpreters who are going to be necessary for this have also waited all day, and I think they would prefer if we went over into the morning. I just want to make certain that is clear.

So I think what we will do is take that portion of the testimony in a very brief session tomorrow morning at 10 a.m., and if there are no further questions I just want to place in the record—this morning Senator Cranston mentioned the case of a Financial Times journalist who was murdered in Guatemala.

On Wednesday, an article appeared in the Mexican newspaper, Excelsior, which links this death with the investigation that the Financial Times reporter was doing on BCCI, and I ask that a copy of this article be translated and then placed in the record in full.

Without objection, that will occur.

[The information referred to follows:]

BRITISH JOURNALIST KILLED IN GUATEMALA

GUATEMALA CITY, July 29, 1991 (AP).—A British journalist who worked for the Financial Times of London was found shot to death in his Guatemala City apartment, officials said Monday.

A maid found the body of Anson Ng Yong, a British citizen born in Malaysia, in his apartment Monday morning, police said.

He had a bullet wound to the head and appeared to have been struck in the neck, the police statement said.

Yong had lived in Guatemala for 7 years.

British Embassy officials said they had no additional information on Yong's death.

Senator KERRY. Gentlemen, I want to thank you very much. Again, I repeat, I think the Fed has been very forthcoming in this process. We appreciate enormously the response and the cooperation, and we look forward to working with you as we go down the road here, and I want to thank you very much.

I know there are reasons that you are under pressure here, and I want to thank the chairman for making you available and I want to thank the chairman for his cooperation.

Mr. MATTINGLY. Thank you, Senator.

Mr. TAYLOR. Thank you, sir.

Senator KERRY. We stand adjourned.

[Whereupon, at 4:36 p.m., the subcommittee adjourned, to reconvene at 10:10 a.m., August 2, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

FRIDAY, AUGUST 2, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Cranston, Brown, and Jeffords.

Senator KERRY. The hearing will come to order.

I am going to start by making a few opening comments.

We have a vote that just started at the moment that we are beginning. So I apologize that there will be a small interruption here.

We meet this morning to resume consideration of the global financial banking scandal involving BCCI. Before I move to explain today's proceedings, I would like to make one or two comments.

Last night I noticed that the distinguished minority leader of the Senate seemed to suggest in a statement on the floor of the Senate that he at least discerns conceivably some partisan political purposes in the investigation.

I want to make it very clear that if that is what Senator Dole meant to suggest, I truly believe that he is mistaken. And I regret that he felt that way.

At our hearing yesterday the senior Senator from North Carolina, who is certainly not usually known as a partisan of Democratic causes said that if there was an ever an issue of legitimate bipartisan concern, it is BCCI. And I agree with the Senator from North Carolina. The fundamental issue raised by this scandal has nothing to do with partisan politics.

The issue is very simply whether we are going to allow a criminal conspiracy of the size and influence of BCCI to be able to run all over our political and financial system, and to bankroll terrorists, to launder drug money, and to take average citizens to the cleaners. That is the issue.

And yesterday there were enough Democratic names and Republican administration criticisms to fill everybody's pot. It had nothing to do with one or the other. I would hope that members of both political parties would simply agree that this is an effort to try to get at the truth.

Now there will be some who will want to discredit the process and who want to discredit those involved with it. We have, unfortunately, been subjected to that kind of attack before. And there are some who will be embarrassed at the process of this effort. There are some who may not want to see the full record on the table.

But I did not see how I could begin a hearing or begin a legitimate investigation that does not lay the groundwork of where we have been and how we have gotten here. And if you are not willing to look at where you have been and how you have gotten here, you are certainly not willing to look at what is at stake here.

I would also say that the minority leader asked rhetorically whether Democrats have shown an interest in investigating the activities of CenTrust. It is sort of ironic that he asks that on the evening of the very day in which Democrats such as me have asked numerous questions at a public hearing about CenTrust, a financial institution in southern Florida that has been under investigation for a number of years.

As the record makes very clear, this subcommittee and this chairman issued a subpoena for the records of CenTrust several months ago. We have been looking for those records. We have been asking about that investigation. And yesterday we received more testimony about it and this chairman asked about it.

So in summary, I hope that my impression of the minority leader's statement was wrong. I look forward to working with him and with my Republican colleagues in an effort to try to continue down the road that we have embarked on.

Now this morning's hearing is different from yesterday and different from the hearings this committee normally has.

First of all, we do not normally have, although we have had on occasions, foreign nationals testifying before the committee. We certainly do not do it as to policy issues that involve the national security of the country in normal terms. But this is a factfinding quest.

It is also very important for us in order to be able to understand the implications of the scandal to have an understanding as to how it has played out in other parts of the world. We need to learn how BCCI operated overseas, so we can better understand how it may have undermined U.S. efforts to combat drugs.

We need to understand BCCI's participation in arms trafficking that has run counter to American interest in the world.

Moreover, it is important for law enforcement to have an understanding. We have mutual legal assistance treaties with other countries. We have international cooperative efforts legally. And it is vital for us to understand that the implications of our law enforcement efforts and how those may or may not be impacted by what is happening in other countries.

I would like to make one thing very clear. I have said this previously to the witnesses and they understand it and agree. This committee does not want to get involved in the internal politics of another country. We are not seeking to do so. That is not our purpose.

We do not want to know about the internal squabbles or battles similar to our own between parties and between factions. And we certainly are not looking to impune any present or past official. We

want to know about BCCI. We want to know how BCCI functioned in these countries and what the impact has been on those countries of consequence to the actions that BCCI took. Those are the parameters of today's hearing.

I look forward to the witnesses adhering to that standard.

Our first witness today is the Deputy Director of Exchange Operations of the Federal Reserve Bank of Peru, Mr. Ricardo Llaque. I would ask Mr. Llaque if you would rise so that I may swear you in before we take your opening. And I am going to go vote before we do that.

Mr. Llaque, would you raise your right hand? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LLAQUE. I promise.

Senator KERRY. Thank you.

Now we will recess, I regret, momentarily until I can go vote and come back from the vote, at which time we will pick up.

The committee will stand in recess until that time.

[A brief recess was taken.]

Senator CRANSTON [presiding]. The hearing will please return to order.

Let me explain, we will not proceed with the witnesses until Senator Kerry returns. But I have an opening statement that I wish to make at this point.

First, let me add my voice of welcome to the witnesses today. They have come many miles to help us understand the global dimensions of the BCCI mess. I appreciate the sacrifices they have made and I look forward to hearing the views of the witnesses.

Before we begin, I would like to make two general comments and one specific matter I want to discuss briefly. The first concerns something I read in yesterday's New York Times which worries me very much. If this report is true, virulently antisemitic and anti-Israel slanders have been voiced by an important Pakistani official in connection with the BCCI scandal.

The chief minister of the Sindh Province, Jam Dadoq Ali, reached into a timeworn bag of canards to put out a bigot's chestnut, "The West and Israel," he said, "were responsible for the closing of the bank. BCCI," he said, "was the Third World Bank, and it took to the challenge of breaking a hegemonistic control of the Jewish lobby on the world's financial institutions."

These comments seek not only to inflame hatred and intolerance, nor are they merely outrageous on their face. Scapegoating is always one of mankind's more miserable ways of explaining failure.

If, in fact, these words were uttered, I call on the Government of Pakistan to publicly repudiate Dadoq Ali's remarks. They are shameful and the mark of a terribly ignorant man.

And as far as BCCI being the Third World's bank, we heard testimony yesterday about how it diverted funds intended to alleviate poverty in Third World to the private profit, criminally, of a few individuals.

Second, I want to express my concern about Argentine President Carlos Menem's apparent desire to blame his own current political difficulties on Argentina's independent press, which is working

under very difficult circumstances to uncover the truth about BCCI in that country.

Yesterday I spoke about a Financial Times journalist whose murder a few days ago in Guatemala may be related to his own probing of BCCI's ties to arms smuggling there.

Now in Argentina Menem has publicly rebuked the muckraking Buenos Aires daily newspaper, Pagina 12, in a way which appeared to harken back to the days of Argentina's authoritarian past. He has attempted in the crudest sort of way to smear Pagina 12 as an organ of terrorist and drug peddlers.

Pagina 12, which was recently written up in Time Magazine for its innovative and incisive reporting, has been giving extensive coverage to the BCCI scandal and its effects in Argentina. It has sought to investigate charges already in the public domain about involvement by Menem family members and friends in the drug trade.

Finally, it was Pagina 12 which unearthed the so-called Swiftgate scandal, an apparent attempt to extort an American company in Argentina. The attempt was allegedly made by a top government official.

I know how criticism, especially that from the fourth estate can hurt, but President Menem is way out of line. I urge him to stop.

Before we begin I would like to place into the record documents just received by the committee as a result of a subpoena of BCCI records in Miami. The 42 pages I am submitting seem to bear out some of the worst suspicions about BCCI's role in international arms trafficking.

The pages describe in a luxury of detail French Mirage III/B's owned by the Argentine Air Force. From them we learn that these planes were "modified to Argentine Air Force requirements following years of combat experience."

We also learn that they are constructed with Delta wings, have aerodynamic airflow fuselage, are powered by an improved and augmented ATAR 9c5 engine, and have a maximum air speed of 2 mach.

According to these documents, these airplanes include wing edge stations modified for Sidewinder and Shafrir missiles, making them very dangerous instruments of war.

On page 34, why BCCI has these documents, papers whose details suggest that somewhere they might be considered a military secret, comes into focus. All spares and repairs, the document on page 34 says, "will cover 2 years of operation at the organizational and intermediate levels. Long-lead items will be identified immediately after program go ahead to assure early procurement action."

The next page tells us that "ground support equipment will be provided for all models of aircraft." Adding, "The AAF"—presumably Argentine Air Force—"will provide an engine test cell—portable."

Page 38 concerns pilot training, "It is proposed that is the customer country training is required," the document reads, "the AAF is prepared to provide this training in Argentina. A complete flight training program will be defined between AAF and customer country with all costs to be negotiated separately at that time."

"After completion," it goes on, "the flight training AAF is prepared to provide a pilot in the customer country as an adviser for a defined period of time."

And concerning packing and crating, page 41 tells us that, "AAF will pack and crate logistic support material and store it at Rio Cuarto, Argentina, for picking up customer country."

Mr. Chairman, these documents exist. They are in our hands. They come to us from the liquidators of BCCI in Miami. The sequence of pages is as I read it. But in fact the best information was revealed right here on page 2 down in the right-hand corner where there is a little handwritten notation on these documents.

In pen someone, presumably from BCCI, has written in English, quote, "22 units of aircraft plus adequate spare parts, including six spare engines, at a price of $110 million." That is the end of that handwritten notation on the document.

I do not know what policy guidelines Argentina follows in procuring and selling weapons. I look forward to asking Mr. Alconada Sempé, who is a former Secretary of Defense, whether he has any knowledge of this proposed sale of 22 high technology fighters or whether this has been discussed publicly.

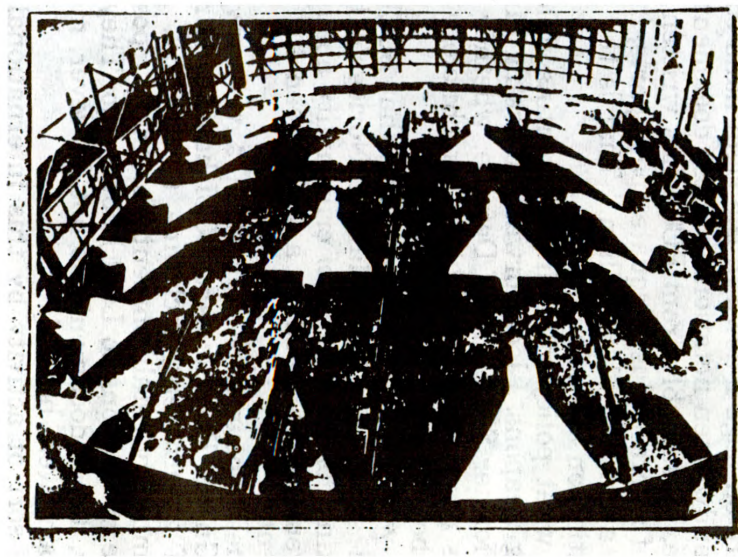
But I do find it worrisome, very worrisome, that BCCI Miami, an institution which served as Gen. Manuel Noriega's banker and about which all kinds of allegations of criminality abound, appears to have been given the go-ahead as a go-between for the sale of military instruments.

I also think these documents suggest in a very vivid way the degree of which Ghaith Pharaon and BCCI have penetrated to the upper reaches of government, including specifically, Argentina's political and/or military establishment, for the purpose of profiteering on the sale of weapons to Lord knows who. They speak of a customer country. These documents do not, however, make it clear where these weapons were headed.

But this is the sort of activity by this international bank that plainly cannot be tolerated. We have to understand all of its ramifications and then cope with what it takes to prevent this sort of thing from happening in the future.

Mr. Chairman, thank you very much.

[The information referred to follows:]



SEN 001360

MIRAGE IIIC/B GENERAL DESCRIPTION

Manufactured by "AVIONS MARCEL DASSAULT" - France

Modified to Argentine Air Force requirements following years of combat experience.

Single Seat, Multi-purpose, over 2 Mach aircraft.

Constructed with Delta wings and aerodynamic airflow fuselage.

Powered by an improved and augmented "ATAR 9C5" engine.

127

C 0001558

22 units of Aircraft plus original spare parts including 6 spare engines at a price of U$D [illegible]

MIRAGE IIIC/B

CONFIGURATION

Improved "ATAR 09C5" Engine (instead of "ATAR 9B").
JM6 Ejection Seat (through canopy, zero speed, zero altitude).
Improved Drag Chute System.
System COM-NAV-Collins.
Structural improvements (Wing & Flight Control reinforcement).
Improved Outboard Carry Points, for air to surface armament.

4.

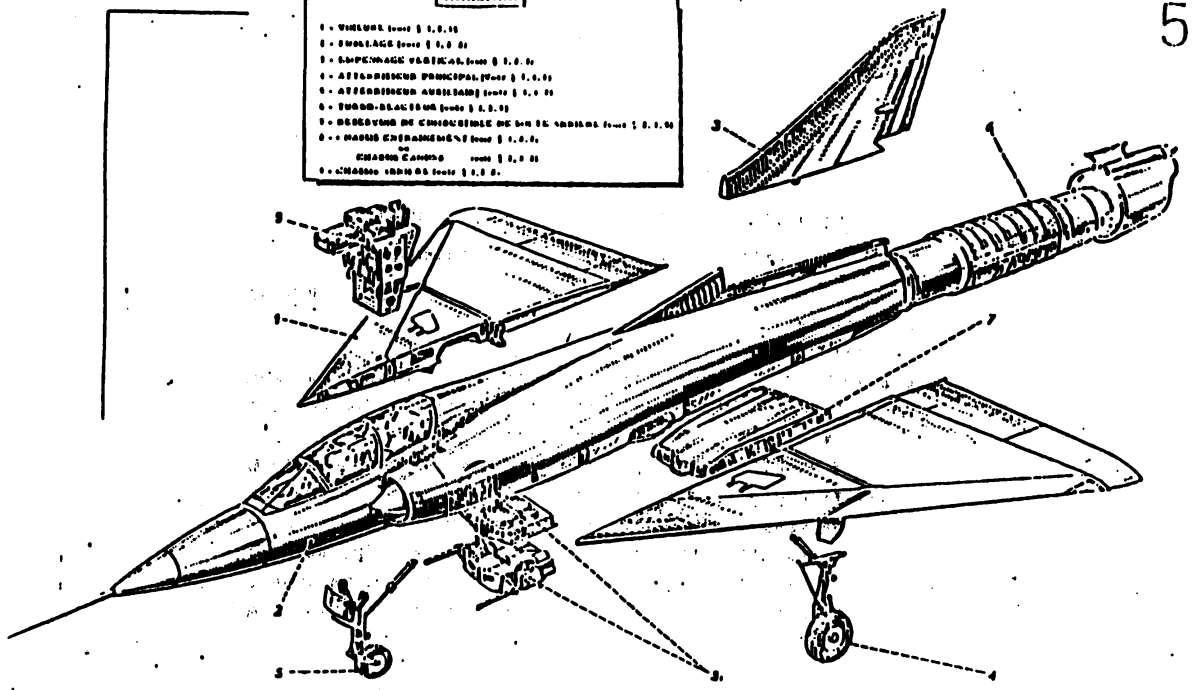
MIRAGE IIIB BASIC DATA TWO SEATER

Wing Area	34.8 sq.m
Aspect Ratio	1.94
Leading Edge Sweep	60°36'
Average Wt.with Int.Fuel	8833 kg.
Internal Fuel	2550 liters
Max.Takeoff Gross Wt	12000 kg.
C.G. Limit	54.2 %
C.G. Average	52.06 %
Max. Air Speed	2 mach or 730 KIAS with external load
Engine - ATAR 9C	
Mil Power	4300 kg.
Max. A.B. Power	6000 kg.

C 0001560

MIRAGE III B

5

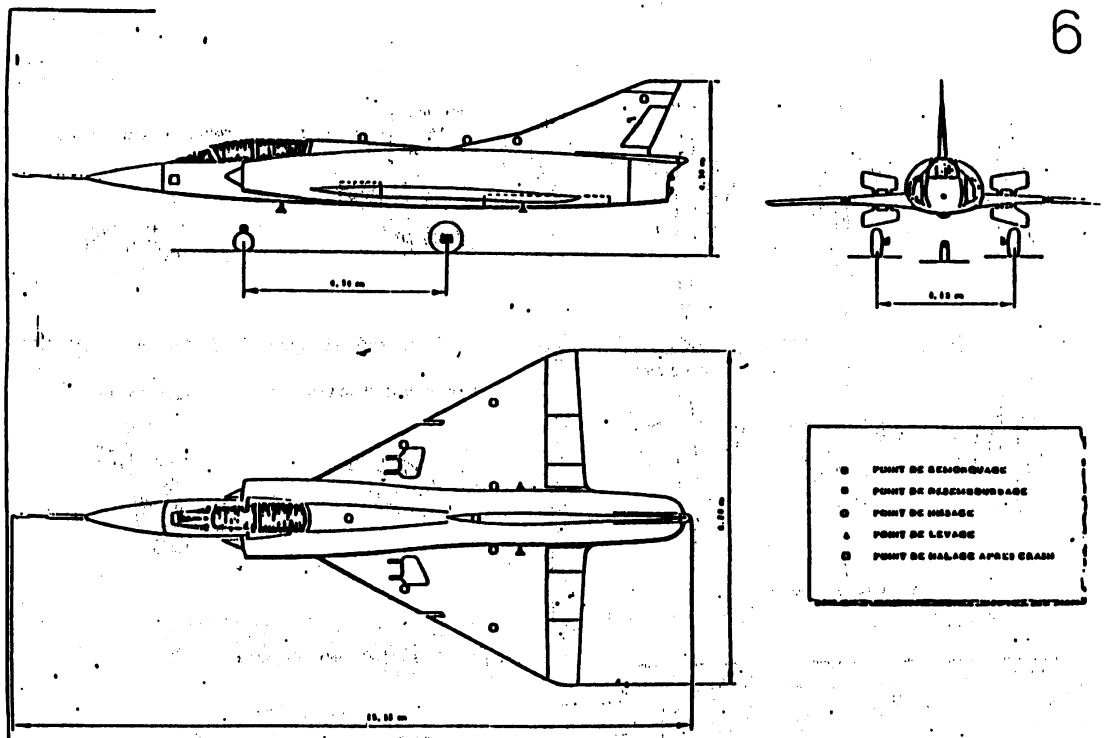


C 0001561

Date : Mars 1966

DESCRIPTION DE L'AVION

MIRAGE III B



C 0001562

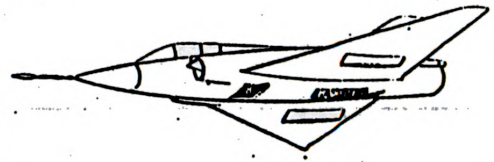
Date : Mai 1966

CARACTERISTIQUES GENERALES

SEN 001365

NUMERO	DESIGNATION	LISSE	PILOTE
I	CHASSIS ENTRAINEMENT RESERVOIR SOUTE AR	LISSE	PILOTE
I A	CHASSIS ENTRAINEMENT RESERVOIR SOUTE AR	1 PEND. 1300 L.	PILOTE
I B	CHASSIS ENTRAINEMENT RESERVOIR SOUTE AR	1 PEND. 1300 L.	SIEGE (ENTRAINEE)
II A	CHASSIS CANONS - 250 OBUS RESERVOIR SOUTE AR	2L 300 L.	CHASSIS OPERATIONNEL
II B	CHASSIS CANONS - 250 OBUS RESERVOIR SOUTE AR	1 BOMBE 1 PEND. 300 L.	CHASSIS OPERATIONNEL
II C	CHASSIS CANONS - 200 OBUS RESERVOIR SOUTE AR	1 ENGIN 1 PEND. 1300 L.	CHASSIS OPERATIONNEL

CHARGES EN SOUTE





SIEGE PILOTE



CHASSIS ENTRAINEMENT



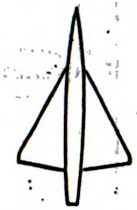
CHASSIS OPERATIONNEL



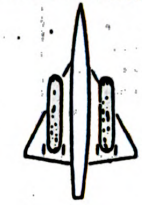
CANONS - 250 obus ou 200 obus

Date : Mars 1966

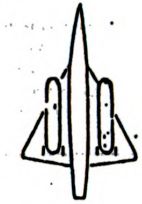
CHARGES EXTERIEURES



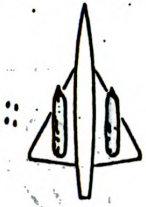
I AVION LISSE



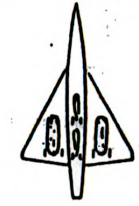
I A



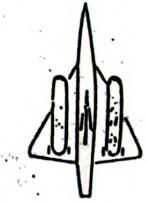
I B



II A



II B



II C

MISSIONS

C 0001563

MIRAGE IIIC BASIC DATA SINGLE PLACE

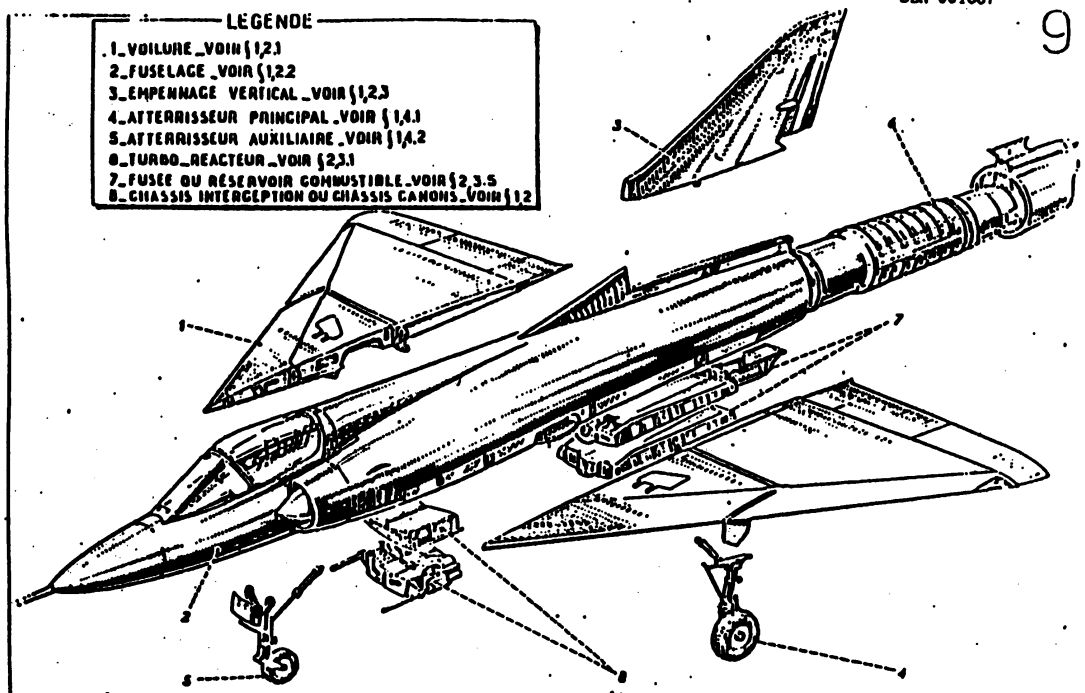
Wing Area	34.8 sq.m.
Aspect Ratio	1.94
Leading Edge Sweep	60°36'
Average Wt. with int.Fuel	8760 kg.
Internal Fuel	2550 liters
Max. Takeoff Gross Wt	12000 kg.
C.G. Limit	54.2 %
C.G. Average	52.2 %
Max. Air Speed	2 mach or 730 KIAS with external load

Engine - ATAR 9C

Mil.Power	4300 kg.
Max. A.B. Power	6000 kg.

LEGENDE

1_VOILURE _VOIR § 1,2.1
2_FUSELAGE _VOIR § 1,2.2
3_EMPENNAGE VERTICAL _VOIR § 1,2.3
4_ATTERRISSEUR PRINCIPAL _VOIR § 1,4.1
5_ATTERRISSEUR AUXILIAIRE _VOIR § 1,4.2
6_TURBO_REACTEUR _VOIR § 2,3.1
7_FUSEE OU RESERVOIR COMBUSTIBLE _VOIR § 2,3.5
8_CHASSIS INTERCEPTION OU CHASSIS CANONS _VOIR § 1,2



INDICE :

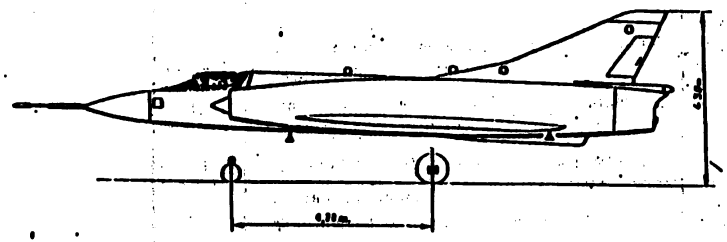
DECOMPOSITION DE L'AVION

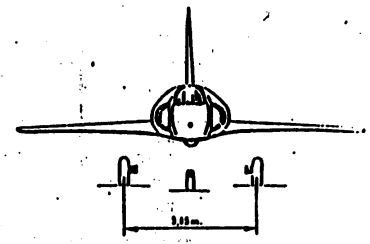
C 0001565

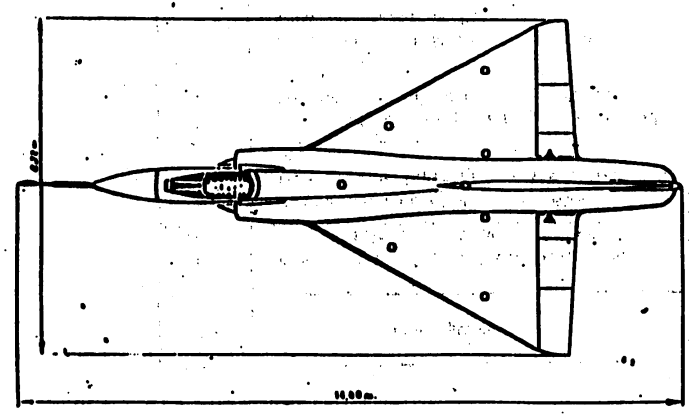
MIRAGE III C

SEN 001368

10







- POINT DE SOULEVAGE
- POINT DE DEGLONFLEMENT
- POINT DE REMORQUE
- POINT DE LEVAGE
- POINT DE HALAGE APRES CRASH

C 0001566

Date :

CARACTERISTIQUES GENERALES

135

MAIN AIRCRAFT MODIFICATIONS

No	Description	Applicable No.	ECP No.
9	Modification of Fuel Tank AMD 2182 vent & Fill Valve Control Cables	BJ CJ	1221
10	Interconnection of Angle of Attack Test warning lamp to Aural Warning system	BJ CJ	1929
11	Gun Sight (CSP-25) Incli-Indicator Control for manual scaling to 250, 450, 600 meter ranges	BJ CJ	[illegible] 1125 2222
12	Replacement of MK.0 Inch Tubeforce Control Cables by Rigid Rod Control system	BJ CJ	2001 2226
13	Application of brake force during engine-shutdown	BJ CJ	2008
14	Replacement of TRAP 21 by ARC51-AX radio sets	BJ CJ	2085 2158
15	Deletion of Landing Approach Control system	BJ CJ	2090
16	Reinforcement of Wing Skin near landing gear doors	BJ CJ	2112

MAIN AIRCRAFT MODIFICATIONS

No.	Description	Applicable No.	ECP No.
1	Automatic Emergency Transmission by IFF, Completion of Previous Change	B.I C.I	388 1980
2	Installation of Load Gauge for Indication of Heavy Landings.	C.I B.I	195
3	Addition of Lube Fittings to Eleven and Rudder Hinge Assemblies	C.I	628 878 1969*
4	Addition of Shut-Off Valve to Hydraulic System, for Prevention of NLG Retraction on Ground	B.I C.I	686 1645 2205
5	Manual Switch for Servo System Electric Isolation Valve	B.I C.I	687
6	Reinforcement of Outer Eleven Edges, for Prevention of Wear (NIT 167)	B.I C.I	730 2129
7	Fabrication of Access Panel, to allow replacement of A/B Ionization Gauge	B.I C.I	826
8	Improvement of Electric Throttle for Engine Emergency Control	B.I C.I	888, 946, 1004, 1118, 2273

MAIN AIRCRAFT MODIFICATIONS

	No.	Description	Applicable No.	ECP No.
	17	Installation of Cartridge Counter	B.I C.I	2143 2159
D	18	Installation of Mirage M-5 Gear Box	B.I C.I	2167
	19	Improvement of Drag Chute System	B.I C.I	2162
	20	Installation of improved canopy mirrors	B.I C.I	2168
	21	Installation of Improved Fuel Remaining Counter	C.I	2175
D	22	Installation of Atar 9C5 Engine	B.I C.I	2178
	23	Canopy Opening Capability at Take Off Station	C.I	2188
	24	Deletion of "SYRANO" Radar	C.I	2193 2202
	25	Deletion of Rear R. Z. Warning System	C.I	2213
	26	Installation of JMU Ejection Seat	C.I B.I	2202 2274

No	Description	Applicable No.	ECP No.
27	Installation of ASIP System (on five A/C)	CJ	2228
28	Preventing Engine Start with D.P. Valve closed or partially open	BJ CJ	2232
29	Wing Upper Skin Reinforcement for prevention of cracks.	BJ CJ	3342
30	Connection of Engine A/B Fire Warning to Aural Warning Indication	BJ CJ	2264
31	Installation of a Canard Wing on Forward Fuselage (prototype)	CJ	2269
32	Modification of Oxygen system	CJ	AAI'

AIRFRAME FLIGHT HOURS

ORDER NUMBER	SERIAL NUMBER	TOTAL HOURS	NEXT PERIODIC INSPECTION	AVAILABLE HS. NEXT INSPECT.	INSPECTION CICLES TO CARRY OUT
1	C-701	2425	V1	65:00	V1-V2-V3-V2-V1-P
2	C-702	2316	V1	65:00	V1-V2-V3-V2-V1-P
3	C-703	2362	V1	65:00	V1-V2-V3-V2-V1-P
4	C-704	2053	V1	65:00	V1-V2-V3-V2-V1-P
5	C-705	1247	V1	65:00	V1-V2-V3-V2-V1-P
6	C-706	2416	V1	65:00	V1-V2-V3-V2-V1-P
7	C-707	2073	V1	65:00	V1-V2-V3-V2-V1-P
8	C-708	2230	V1	65:00	V1-V2-V3-V2-V1-P
9	C-709	2104	V1	65:00	V1-V2-V3-V2-V1-P
10	C-710	1487	V1	65:00	V1-V2-V3-V2-V1-P
11	C-711	1491	V1	65:00	V1-V2-V3-V2-V1-P
12	C-712	1949	V1	65:00	V1-V2-V3-V2-V1-P
13	C-713	2028	V1	65:00	V1-V2-V3-V2-V1-P
14	C-714	1912	V1	65:00	V1-V2-V3-V2-V1-P
15	C-715	1760	V1	65:00	V1-V2-V3-V2-V1-P
16	C-716	1858	V1	65:00	V1-V2-V3-V2-V1-P
17	C-717	1934	V1	65:00	V1-V2-V3-V2-V1-P
18	C-718	1669	V1	65:00	V1-V2-V3-V2-V1-P
19	C-719	1675	V1	65:00	V1-V2-V3-V2-V1-P
20	C-720 (B)	1775	V1	65:00	V1-V2-V3-V2-V1-P
21	C-721 (B)	1477	V1	65:00	V1-V2-V3-V2-V1-P
22	C-722 (B)	1501	V1	65:00	V1-V2-V3-V2-V1-P

NOTES:

1) Inspection cicles: V1-V2-V3 are carried out each 65:00 flight hours. On reaching to 390:00 hours, the aircraft goes into type "P" inspection.

2) All aircraft which have a general total of more than 2000 hours must go into overhaul at 2500 hours.
The remainder aircraft must go into overhaul at 2500 hours.

SBN 0013E3

11

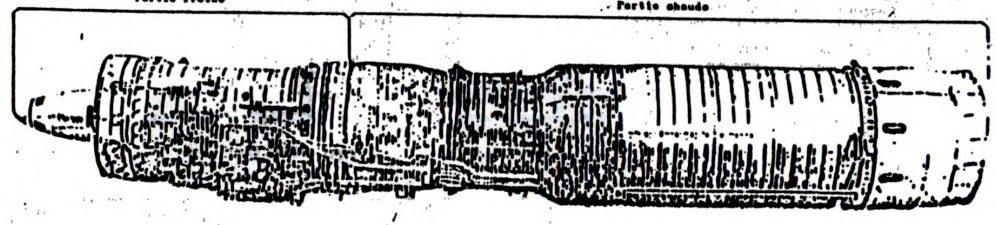
AIRCRAFT MAINTENANCE CONCEPT

Organizational level	Intermediate level	Depot level
Pre-flight	Preventive Insp. 195 flight hours (V3) Inspection	2500/3000 flight hours Inspection (Overhaul)
Basic Post-Flight	390 flight hours (P) Inspection	
Weekly Inspection	Incorporation of Engineering Changes	Incorporation of Major Engineering Changes (Structural)
Special Inspection 65 flight hours (V1, V2) Inspection		

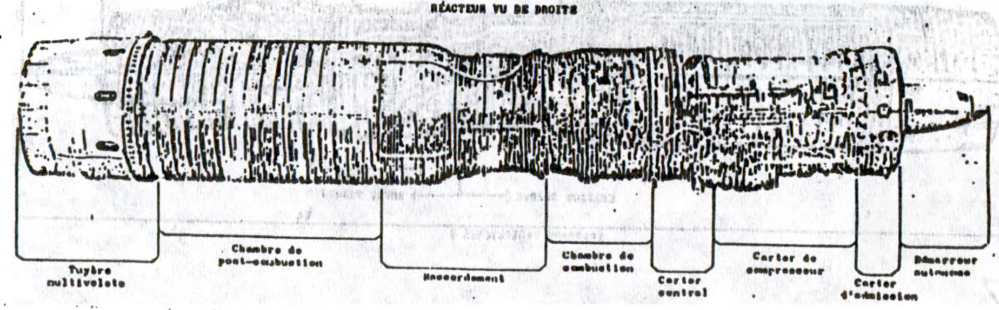
ENGINE

Model	ATAR 9C5
Type	Axial Flow with Afterburner
Compressor	9 Stages
Turbine	2 Stages
Combustor	One, Annular
Nozzle	Variable, 18 Flaps
Control	Hydromechanical with Electrical Emergency Regulation and Derichment Firing Solenoid Valve
Starting	Compressed Air Starter
Weight	1380 kg.
Length	658.9 cm (approx.)
Diameter	1050 cm (approx.)

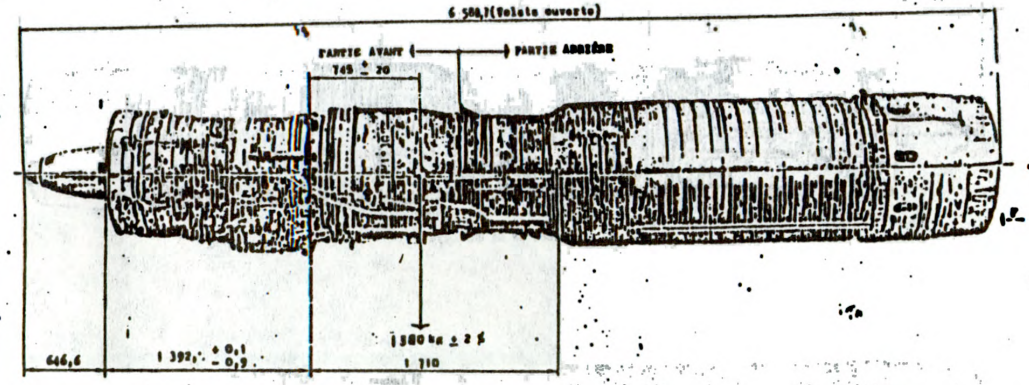
RÉACTEUR VU DE GAUCHE



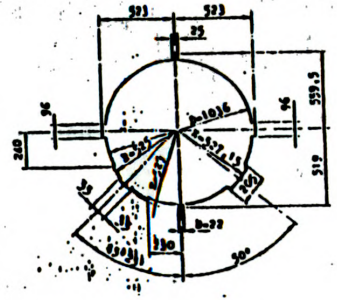
RÉACTEUR VU DE DROITE



C 0001574



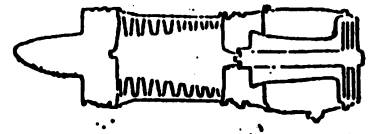
VUE SUIVANT FLÈCHE F



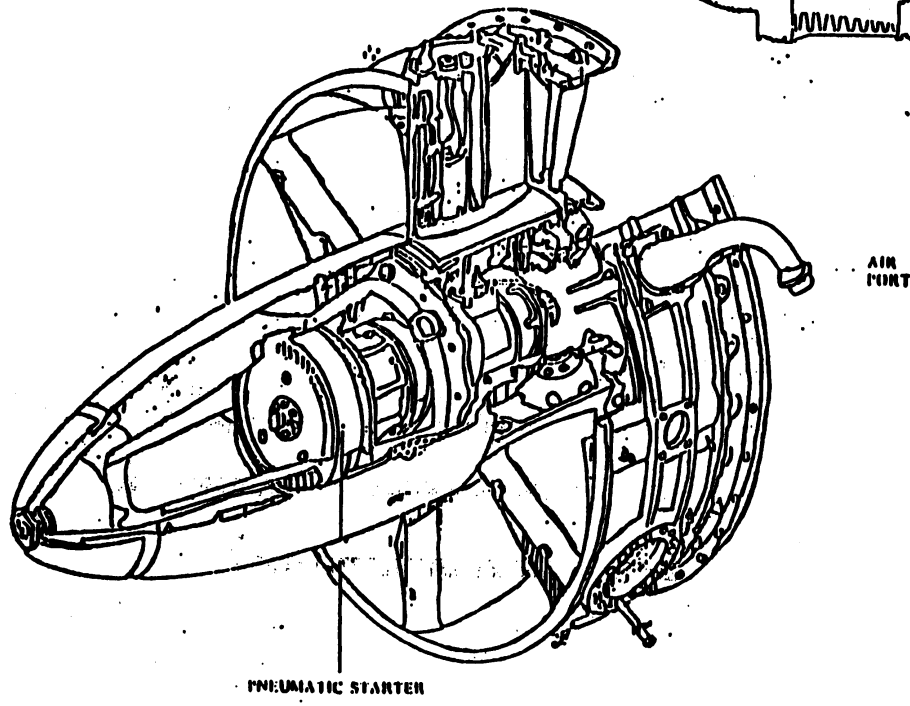
Masse totale : 1 380 ± 2 %
Cette Gamme est celle d'un réacteur sans huile, équipé du canal d'éjection 012 et de la prise de mouvement orient

C 0001575

SEN 001378



22



C 0001576

ENGINES AND AFTER BURNERS MAINTENANCE CONCEPT

Organizational level	Intermediate level	Depot level
50 flight hours Inspection	200 flight hours Inspection	600 + 5 % flight hours Inspection except when was changed disc N°7 that the inspection is at 800 hs.

ENGINES STATUS

Besides engines installed on aircraft, five engines will be supplied as spares .
The total available flight hours for all engines will be 7.500 hours aproximatelly.

1.0 ENGINE MODIFICATIONS

No.	Description	E.O. No.
1.	Additional holes in oil system for prevention of contamination	65-0258.
2.	Ceramic Coating on A/B Liners and Flaps for Improved Endurance	66-0446
3.	Central Case Modification for prevention of oil leakage, bearing damage and case cracking	65-0463
4.	Improved Cooling on A/B Liner Attaching Bolts by Insertion of special spacers	66-0550
5.	Prevention of fuel coking in A/B Spray Rings by deletion of P2 Air Restrictor.	65-0580
6.	Air Starter (Instead of Gas Generator Starter)	-
7.	Approach Control Unit - not applicable	-
8.	CHEST Remover Amplifier - not applicable CHEST Remover Solenoid Valves - not applicable	-
9.	Gun Firing Solenoid Dorichment Valve - only missile firing - deleted	-
10.	Over-Riding System disconnected from FCU	-

IMPROVED ARMAMENT SYSTEM

Wing Station Armament Connectors Replaced with Bendix Type

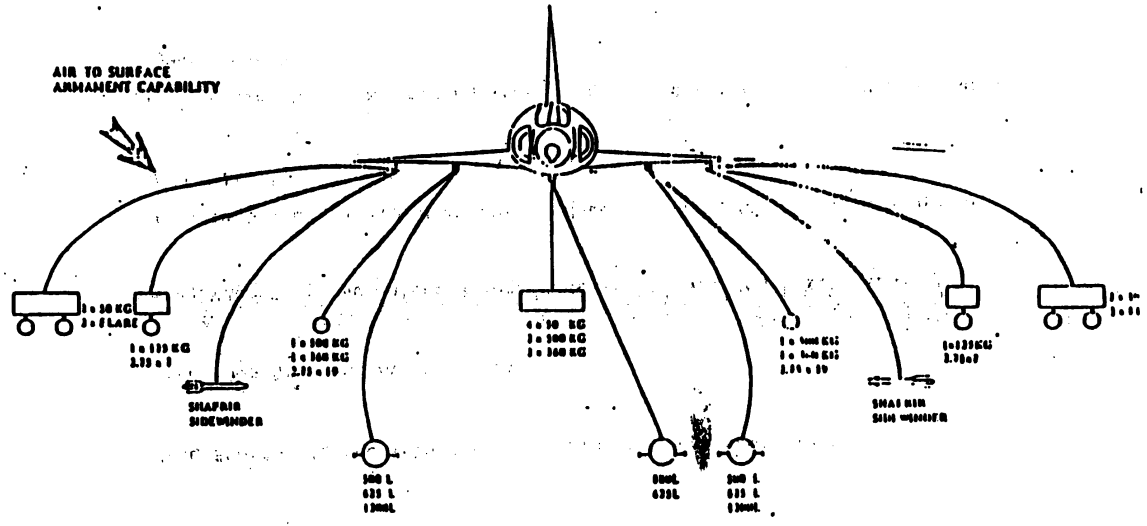
Wing Edge Armament Attach Points.

Wing Edge Stations Modified for "Sidewinder" and "Shafrir" Missiles

Missile Launch through Bomb Button Enables Gun Operation in Conjuction with Missiles.

Center-Line Ejection Rack Equipped with Two Electromagnetic Release units-Type Alkan-500

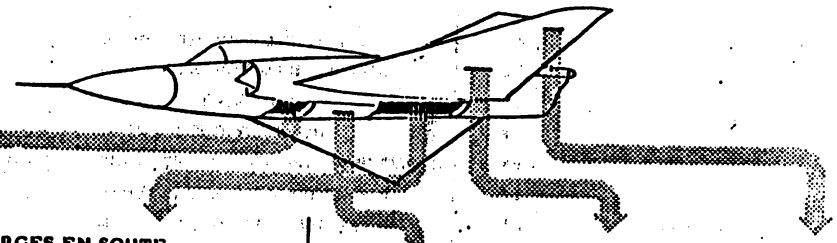
MIRAGE IIIC – ARMAMENT



C 0001581

2.6

MIRAGE III C



CHARGES EN SOUTE

SOUTE AV.

TR4 330 l
ou
TX 160 l

ou

CANONS 250 OBUS

SOUTE AR.

TR4 330 l

ou

GROUPE FUSEE 300 l
(ACHIE)

CHARGES EXTERIEURES

SOUS FUSELAGE

BOMBES 500 lbs
1000 lbs
400 kg

ou

ENGIN NORD
MATRA

ou

RL. 600 l

SOUS VOILURE

POINT INTERNE

RL. 600 l - 1300 l -

ou

JL. 100

ou

BOMBE 500 lbs
1000 lbs
400 kg

ou

RESERVOIR SUPERSONIQUE
500 l (non largable)

POINT EXTERNE

SIDE-WINDER

Date : février 1966

C 0001582

SPECIAL EQUIPMENT

	PART NUMBER	DESIGNATION	QUANT
1	07-718	FUEL TANK 500 LITER - R	23
2	07-718	FUEL TANK 500 LITER - L	23
3	07-731	FUEL TANK 880 LITER	23
4	07 492 999 1	CENTERLINE FUEL TANK CARRIER	23
5	07-721-722	FUEL TANK 1300 LITER	46
6	07 772 999 1	WING FUEL TANK CARRIER-R	23
7	07 772 991 1	WING FUEL TANK CARRIER-L	23
8	07-072	BOMB RACK TYPE 502-R	23
9	07-071	BOMB RACK TYPE 502-L	23
10	4010A20-10	GUN PACK	23
11	01-161-0000	GUN 30 MM	46
12	07-075 A	CENTERLINE BOMB CARRIER	25
13	07-705	WING TIP BOMB CARRIER- R	23
14	07-605	WING TIP BOMB CARRIER- L	23
15	52-572 (Cocodrilo)	ADAPTER FOR LIGHT (LAU) CANISTER	46
16	07 031 999 1	LIGHT BOMB CARRIER	46
17	07 208 991 1	SHAFRIR LAUNCHER	46
18	CES 1 D	WING TIP ADAPTER RIGHT	22
19	CES 1 I	WING TIP ADAPTER LEFT	22

NOTE: From item 10 each 22 are installed in the aircraft and each one is delivered as spare.
From item 11 each 44 are installed in the aircraft and each two are delivered as spare.

EJECTION SEAT - JM6

JM6 Ejection Seat - Manufactured by Martin-Baker

Zero Altitude, Zero Speed, Through Canopy, Rocket Ejection.

Belts-Attach Point for Legs during Ejection

Canopy Ejection Separately from Seat.

32

NEW CENTURY SERIES

MANUFACTURE:COLLINS (13499)

ORDER NUMBER	PART NUMBER	NOMENCLATURE	SINGLE SEAT	TWO SEAT
1	622-1396-002	618M-3A Transceiver	2	2
2	522-2599-501	313M-5 Controls	1	2
3	622-3259-005	51RV-4D Receiver NAV	1	1
4	522-2447-564	313M-2D Controls	1	2
5	622-3102-001	MKR-351 lights marker	1	2
6	622-2362-001	ADF-60A Receiver	1	1
7	787-6366-006	C141.v12 Controls	1	2
8	622-2363-001	ANT.60A Antenna	1	1
9	522-2996-011	51Z-4 Marker receiver	1	1
MANUFACTURE: DOME MARGOLIN (05226)				
1	DM50-1	Antenna V.H.F.	2	2
MANUFACTURE: CHELTON (U1907)				
1	1919	Antenna VOR/ILS	1	1
MANUFACTURE: ASTRONAUTIC (IL)				
1	113515	HSI Indicator	1	2

154

PUBLICATIONS.

AAF will provide all technical documentation for organizational and intermediate level in support of single and twin seat models. (ANNEX"A")

C 0001585

SPARES

All spares and repair parts will be identified and comprises approximately 10.000 line items. Spares support will cover two years of operation at the organizational and intermediate levels. Long lead items will be identified immediately after program go-ahead to assure early procurement action.

GROUND SUPPORT EQUIPMENT

Ground support equipment will be provided for all models of aircraft to include organizational and intermediate level.

Complete listing of equipment will be provided on request.

The AAF will provide an engine test cell (portable).

37

REPAIR OF REPARABLES

AAF will provide necessary contractor contacto to support intermediate level component repair until full capability is established in customer country. Costs will be negociated directly with contractor representative.

PILOT TRAINING

It is proposed that if customer country training is required, the AAf is prepared to provide this training in Argentina.
A complete flight training program will be defined between AAF and customer country with all costs to be negotiated separately, at that time.
After completion of flight training, AAF is prepared to provide a pilot in the customer country as an adviser for a defined period of time.
In any and all training in Argentina, customer country spares and equipment will be provided to support the training effort.

TOTAL COST: To be negociated separately

MAINTENANCE TRAINING

AAF will provide an organizational and intermediate training program, including on-the-job training and will provide fully qualified instructor personnel to conduct the training. The training will be provided in Río Cuarto, Argentina.

TOTAL COST: To be negociated separately.

PACKING AND CRATING

AAF will pack and crate logistic support material and store it at Río Cuarto, Argentina for picking up customer country.

47.

TECHNICAL ASSISTANCE

AAF will provide the best effort to support the technical man power requirements of the costumer country, and will be negotiated at a later date.

Senator KERRY [presiding]. Thank you very much, Senator Cranston.

Senator CRANSTON. Let me add that those documents will be made available to the press if they have not already gotten them.

Senator KERRY. Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

Mr. Chairman, I simply wanted to mention at the start of our hearings today that I believe the course of inquiry that our subcommittee is on is one that is not guided by partisan approach, nor should it be. I believe a fair review of the actions of the subcommittee thus far would bear that out.

We are looking for the facts wherever they are going to lead us whether they embarrass Democrats or Republicans or Independents or Liberals or Conservatives, no matter what interest. This committee has a responsibility, I think, to bring those facts out.

And I believe that thus far the way you have conducted the hearings, the inquiries that have been made, the information subpoenaed has shown a commitment to that kind of open, full, unbiased inquiry. It is in that spirit that I want to express my appreciation to you for the way this has gone forward and pledge to you that I will do my best to work with you to make sure that continues along that path.

Senator KERRY. Senator Brown, thank you very much. I appreciate the comment.

I also want to say that I have enjoyed enormously working with you. We have been doing extraordinarily well working on this and also on the POW/MIA issue. I look forward to continuing to work with you on that, to get to the bottom of that one, too.

Let me reiterate one thing before we begin, Mr. Llaque. This committee's job is not to try also to prosecute any issue in Peru. We are really factfinding, and factfinding exclusively.

There is no effort by this committee, and I want to absolutely assure this for any foreign journalist or any people who are concerned about it, there is no effort by this committee, I underline this, no effort by this committee to influence those decisions in the country or to influence politics whatsoever.

But because this bank was involved in each of our countries all around the world and because of the many implications of drug trafficking, arms dealing, covert activities, and so forth that have tied our countries, it is very important for each of us to try to understand what is the truth here. That is the spirit in which we approach this morning and the questions.

Mr. Llaque, I am particularly appreciative for your patience. We thank you. You have traveled some distance to be here. You put up with the inconvenience of yesterday as did the other members of your party and other witnesses. And we really appreciate your respecting our delays and our process here.

We thank you for taking the time to come here and share with us your knowledge.

If you have an opening statement, we would now receive that.

STATEMENT OF RICARDO LLAQUE, DEPUTY DIRECTOR OF EXCHANGE OPERATIONS, FEDERAL RESERVE BANK OF PERU

Mr. LLAQUE. I have been asked by the board of directors of the Reserve Bank of Peru to cooperate with your committee and report on the relations that the Central Bank of Reserve of Peru had with BCCI.

First of all, I would like to recount the financial situation that my country was in at the beginning of 1986. We had very restricted availability of line of credit abroad to finance our foreign trade.

In the face of this situation, the Central Bank took measures to enter into operations with new corresponding banks, trying to get reciprocity for deposits made by our Central Bank. Reciprocity meant the granting of lines of credit to Peru channeled through the local banks.

In April 1986, we received the instruction from our management to talk to a number of banks to see if it would be possible to establish corresponding relationships and get such reciprocity. I am talking about in order to get credit for our country.

The technical areas of the Central Bank, or the technical departments, analyzed the situation of a number of banks, including BCCI. Finally, after drawing up a technical report, the board of the Central Bank in April 1986 instructed us to establish a corresponding relationship with BCCI.

Our steps culminated on April 28 of that year. That was the date when, after having reviewed all of the relevant documentation; namely, the documents which are usually requested, the general business agreement for the handling of numbered accounts, et cetera, et cetera, we signed an account for a numbered account with BCCI in Panama.

I want to explain why we established numbered accounts. Under these circumstances, there was the possibility of an embargo against the Central Bank accounts, since we had stopped paying on our foreign public debt, so we established call accounts and time accounts in BCCI's office in Panama.

The Central Bank in BCCI set up its accounts on May 6, 1986, for 1 month, placing $15 million in one checking account. That same month we made deposits up to an amount of $200 million during that same month. At the end of that same month, we signed the first agreement with BCCI whereby that bank placed at the disposal of our Central Bank a line of credit for $60 million to be used for Peruvian foreign trade in order to confirm letters of credit for imports.

What the Central Bank did was distribute this $60 million among the various major Peruvian banks so that they could finance our foreign trade. Considering the benefit brought to the country by the use of this line of credit, we asked BCCI to increase this line of credit by $50 million more. That is to say, to $110 million.

That, at the request of BCCI, required an increase of deposits of the same amount. In other words, that our deposits of the Central Bank of Peru, to Peru, became $250 million. We are talking about March 1986. March 1986.

Thereafter, in August 1986 the Central Bank again asked for an increase in this line of credit by an additional $50 million. That is, the line went up to $160 million. At that time, the Central Bank did not increase its deposits in BCCI.

It is important to point out that during this period the interest rates paid by BCCI on our deposits were varied and sometimes were related to market rates, although I must underscore, too, that in the period between October 1986 and March 1987 interest rates paid by BCCI were under average international market rates for deposits.

A very important point that I also want to underscore is that the amount of deposits of the Central Reserve Bank of Peru in BCCI were about 25 percent of the total deposits of the Central Bank. We also had deposits in other banks—German, Japanese—and in regional economic or financial organizations such as the Andean Reserve Fund.

During the middle of 1987, new information arose to be taken into account in our relationship with BCCI, especially the rather unsatisfactory results of the BCCI holding company in Luxembourg and the fact that profits went down a great deal, indicting poor performance by the bank during the year ending in December 1986.

At the same time, it was established that BCCI's legal constitution in Luxembourg did not allow it to be a lender of last resort, especially if there were to be a default in any of the operating units such as the one in Panama.

In the face of this situation, the Central Bank of Peru decided to restrict or cut its deposits which would go beyond any reasonable reciprocal compensation. The withdrawal was made gradually by the Central Bank of Peru, considering that we had a debt vis-a-vis that bank of $160 million and that the last period would come due in about October 1988. The last due date would be then.

So the deposits of the Reserve Bank of Peru culminated as follows: The dollar deposits, U.S. dollar deposits, were kept until the end of October 1988. That was the month, as I said a moment ago, when we stopped paying our last payment, or when we finished paying the last payment of our line of credit.

We obviously had to suspend the distribution of funds from this line of credit to our various Peruvian banks. The Central Bank also had deposits in German marks and yen which were maintained until June 1988. The final payoff, or closure, of the numbered checking accounts happened on May 31, 1989, which ended the whole relationship of the Peruvian Central Reserve Bank with BCCI.

That is all I have to say. Thank you, Mr. Chairman.

Senator KERRY. Thank you very much, Mr. Llaque.

Let me ask you first of all some details, if I can. What is your official position at the Reserve Bank?

Mr. LLAQUE. My official position is that I am the deputy manager of exchange operations. This is a job that I have held since about 1981.

Senator KERRY. The first involvement that you came to have with BCCI was specifically what—the first involvement?

Mr. LLAQUE. As I said, approximately March 1986 when, upon instruction from the board, we began to look for new corresponding banks that were not already creditors of Peru.

Senator KERRY. The reason you had to look for the new corresponding banks, not creditors, was that your credit with the other banks was a problem, correct?

Mr. LLAQUE. That is right.

Senator KERRY. How did you come across BCCI? Did somebody recommend it to you? Did you know about the bank?

Mr. LLAQUE. BCCI presented itself to Peruvian authorities in about 1984, introduced itself and asked to open a branch office under Peruvian law foreign branches of banks are approved by the Superintendency of Banks and Insurance at the favorable recommendation of the Central Bank. That was when in the country we first learned of the existence of this bank.

Its request was approved by the superintendency, but the bank changed its mind and did not set up this branch. It had sent its people to Peru, and when we began to look for new corresponding banks the bank was already there. It was in Panama, and it was in Panama where we were holding most of our deposits anyway because of our fear of this possibility of embargo that I mentioned.

Senator KERRY. So you had already put Central Bank's funds, Peru, into the branch of BCCI in Panama—in other banks?

Mr. LLAQUE. In other banks in Panama. German banks, Swiss banks, but not in BCCI.

Senator KERRY. Was there any one individual who presented himself to you to suggest that BCCI would be able to deal with your credit problem?

Mr. LLAQUE. No. I do not remember that there was any specific person who came forward. Normally letters come, telexes come into the Central Bank offering. That is normal. That is what always happens.

At that time, for instance, we received letters from other banks offering us good conditions, favorable conditions for deposits, considering, Mr. Chairman, that for a bank to have a Central Bank deposit is a source of prestige, because Central Banks are usually very careful because they manage the reserves of their countries, so they first take into account security or safety, and only after that, profitability.

Senator KERRY. What was there about BCCI at that time that commended it to you in terms of meeting the standards that you just articulated?

Mr. LLAQUE. Well, first of all the bank at that time—as I said at the beginning of my statement, we were looking for two things: safety and reciprocity. As to reciprocity, the bank offered us the line of credit that I already talked about and also a series or a whole range of services which go along with any commercial bank.

Senator KERRY. Were these the same services as other commercial banks, or were they different?

Mr. LLAQUE. They were the same as other commercial banks. They also offered to keep a numbered account for us in Panama, and this was of interest to us because of the possibility of an embargo, which I have already mentioned.

Senator KERRY. If I can interrupt you, I apologize. When you say "it offered us a numbered account in Panama," one of the services that you were looking for was an ability to be able to hide the money from seizure, was it not? You did not want the money to be snatched by a creditor?

Mr. LLAQUE. Yes. Perhaps "hide" is not the word, but it was that the Central Bank would have security, having secured deposits outside of places where an embargo could happen, but this embargo did happen. We had at least two cases of embargoes of funds from the Central Bank in U.S. banks, and also an embargo of funds from commercial banks in the United States as well.

Senator KERRY. Now, it is my understanding on the deposits of Central Bank funds that you made with BCCI you only got credit for half the dollar that you put in. In other words, you would put in $1, but you were only credited with 50 cents on the dollar. Is that accurate?

Mr. LLAQUE. That is right. Indeed, exactly.

Senator KERRY. Why would that be?

Mr. LLAQUE. I cannot give you an exact reason, but you have to consider that Peru's situation at that time was not very favorable in the sense, in the first place, that we did not have very many places to deposit our money, and second the scarcity of lines of credit, so there was not necessarily an equivalent relationship between deposits and the line of credit. Deposits could be much higher.

We have had cases of deposits at very high levels in banks that did not offer us lines of credit. That was the case of the International Bank of Settlements, where we had about $1.3 billion on deposit and we did not get a line of credit at all. It was not that bank's mission. All we were considering then was the aspect of safety or security.

Senator KERRY. Did not other banks in Panama offer numbered accounts?

Mr. LLAQUE. Yes, but not levels of credit which were very high. We had numbered accounts, for instance, in the Deutsch-Sidmenkanische Bank in Panama, which is a branch of the Hamburg bank.

Senator KERRY. The key to you was the line of credit which you believed you were receiving or did receive from BCCI?

Mr. LLAQUE. It was one of the most important points in the decision of the board of the Central Bank to accept the corresponding relationship, the deposits, and the line of credit which reached a level of $160 million, and since it was a revolving line of credit it meant that this was a benefit for Peruvian industry at an amount much higher than what the nominal amount of the line of credit really was.

Senator KERRY. It is my understanding that efforts were made to, in a sense, hide the BCCI-Peru money trail. I mean, that was the essence of security. Security meant that this is out of reach of somebody's capacity to attach it. That is why they chose the numbered account, that is why Panama, and that is why BCCI. Is that accurate?

Mr. LLAQUE. Well, I want to clarify this point in the following manner. Indeed, an important factor was the possibility of an em-

bargo, an attachment, but we had the same criterion in mind with other deposits, and let me mention deposits at the end of 1986 and during 1987 in the Bank of International Settlements that I already mentioned, in the National Bank of Argentina where we deposited a large amount of money, in the Deutsch-Sidmenkanische Bank, in the Banco de Brazil, the Bank of Tokyo, in Bladiks, which is an import-export regional bank headquartered in Panama, and Credit Lyonnais of France, so there we use the same criteria to try to avoid these seizures or attachments or embargoes.

Senator KERRY. Let me try to ask that a different way because I am not sure that you are answering my question directly. Does the code name Terra Firma mean something to you?

Mr. LLAQUE. No, it does not.

Senator KERRY. The code name Terra Firma in connection with BCCI and Central Bank money?

Mr. LLAQUE. No, we have never heard that. Our accounts were in our name with a number, as is the customary way of doing it.

Senator KERRY. I understand that. I just wondered if you had heard of this code name.

Do you know whether or not——

Mr. LLAQUE. I did not hear you, I think.

Senator KERRY. Are you aware of any evidence of payoffs having been made by BCCI to officials of the Central Bank?

Mr. LLAQUE. No, we have no evidence of that in the Peruvian Central Bank. Absolutely no evidence of that.

Senator KERRY. You have heard of allegations to that effect; is that accurate?

Mr. LLAQUE. Of course. Just Monday of this week we have all read about that.

Senator KERRY. I do have some more questions with respect to what began to happen to BCCI and your perception of it that made you change and pull money out. I want to turn to Senator Brown before we do that.

Senator BROWN. Mr. Chairman, thank you.

Let me reiterate the comments you made earlier and how much we appreciate your coming to help us in this inquiry.

I would be interested in knowing if there were reasons other than economic reasons that you completed or finished your relationship with BCCI. Was it simply a matter of getting a better deal, better return on your deposits elsewhere?

Mr. LLAQUE. We had some information alerting us that our deposits were not safe in BCCI. This happened at the end of July 1987. Not only that, we received a telex at our own request from IBCA Banking Analysis of London informing us that over the past few years, that bank had had significant losses in its operations on the options market. And this institution also told us that the bank was using an accounting system which was rather unusual, that did not allow easy identification of the level of losses as well as the activity that gave rise to such losses.

When we got this information and of a technical nature, we informed the board of the Central Bank and we recommended that we cut our deposits gradually, as I explained in my statement.

Senator BROWN. Very wise. Did BCCI ever suggest anything to you that you considered improper? Illegal? Any course of activity that would be illegal or improper?

Mr. LLAQUE. No. They never suggested anything of this sort. Our relations with that bank were strictly financial and deposit—relations like you would have with any corresponding bank. The only thing we got was a request from them to maintain our deposits in the face of our gradual withdrawals between August and September 1987.

The telexes we got from Panama were almost begging us to keep our deposits there, but we had already decided to withdraw them. We took out $30 million. That was a large amount. And then we took out similar amounts until we finished in October 1988. Before anything was heard in the press about the problems of BCCI, we had withdrawn practically all, virtually all, of our money from that bank.

Senator BROWN. I would be interested in knowing during the period that your country has suspended payments on foreign debt, if there is any portion of that in which you have gone back and paid off. Have all foreign creditor been treated the same, or have some been paid off during this period?

Mr. LLAQUE. We stopped paying our debt unilaterally at about the end of 1984. The suspension of payments was more pronounced starting in middle of 1985. I am talking about our public debt, our government debt, and public enterprise debt. Before that and because of balance of payments problems, we had already stopped paying on our short-term working capital debt. That was one of the reasons why we had to look for new corresponding banks.

We have just reinitiated some payments starting in 1991 on our foreign debt. We have reached some specific agreements, swaps. We have been paying off debt with certain commodities on the basis of certain agreements. We have been doing this with countries as well as with certain banks.

Senator BROWN. Did BCCI ever make recommendations to you with regard to how those obligations should be handled?

Mr. LLAQUE. No. We never received any suggestion or recommendation from BCCI. Our relationship was strictly one of a depositor bank and a creditor bank in respect of commercial credits.

Senator BROWN. Thank you.

Senator KERRY. Mr. LLAQUE. No central bank is going to make a decision to put its deposits somewhere simply on the basis of a telex and a secret number of letter. There had to be some contact with somebody.

Mr. LLAQUE. Yes, of course. We had coming to Lima some officers of BCCI with whom we had formal conversations. These were authorized representatives to negotiate the account, the deposits, and the line of credit. I have the names of some of these people which appear in formal letters.

Senator KERRY. Who did come and negotiate?

Mr. LLAQUE. One person, Bilgrami, he signed the communication offering us the line of credit.

Senator KERRY. Is that Mr. Akbar Bilgrami?

Mr. LLAQUE. Yes. Initials A.M. Bilgrami.

Senator KERRY. Did you do any background check on him?

Mr. LLAQUE. No, we did not investigative those representatives of the bank.

Mr. KERRY. The record should show that this is the same Mr. Akba who was subsequently convicted of the money laundering in BCCI in Tampa.

Who are the other individuals who came?

Mr. LLAQUE. I do not have any other name right here but I remember one. I will look for it here in the document. But his name was Kureshi.

Senator KERRY. Do you know what Mr. Kureshi did? What was his role?

Mr. LLAQUE. Just like the other official. He was discussing terms for opening the account and the line of credit. That was all.

Senator KERRY. Whom did he meet with? Who made the decision?

Mr. LLAQUE. The final decision is usually taken by the board of the Federal Reserve Bank of Peru on the basis of technical documentation.

Senator KERRY. Who did he specifically meet with? Who were the meetings between? Who represented Peru in those meetings?

Mr. LLAQUE. Well, it is not a representation of Peru; it is technical representation. In the Central Bank, the people managing for an accounts are the people in them, in the management office, for foreign accounts. This is the manager of international operations. And it is up to him to deal with corresponding banks, and we do this every day.

Senator KERRY. Do you happen to know who met with Mr. Bilgrami?

Mr. LLAQUE. No. I do not have any evidence, but it is up to the management for international operations. There are a number of different managers over the years.

Senator KERRY. Would there have been just one meeting, or were there a series of meetings which Mr. Bilgrami took part in?

Mr. LLAQUE. I personally was not there, but I understand there were a number of meetings. This is customary. At least four or five meetings, I am sure, to discuss the terms and the details.

Senator KERRY. When you say, Mr. Llaque, that an analysis or evaluation was undertaken of the central deposits at BCCI, what prompted that? Anything in particular?

Mr. LLAQUE. Well, we received news or reports that BCCI was having some financial problems. That is why we asked the specialized organization in London to give us this information. This was in August 1987, as I said a moment ago.

Senator KERRY. Did you learn at that time anything about drug laundering? Money laundering?

Mr. LLAQUE. No, at that time we knew nothing. We found out nothing of that sort at all. This we found out much, much later from press reports after we had withdrawn all the funds of the Central Bank of Peru from BCCI.

Senator KERRY. Now, when you received the information in 1987 about the difficulties that BCCI was having, was that reported to any other agencies of the Peruvian Government or was it simply a Federal Reserve decision on its own?

Mr. LLAQUE. The only one that had relations and deposits with BCCI was the Central Bank, but when we were given a line of credit, we had to establish accounts by local banks with the BCCI in Panama. So we informed the local commercial banks that we were ending our relationship with BCCI, and when the last payment was made on the debt with that bank, those Peruvian commercial banks would also have to close their accounts with the BCCI branch in Panama.

Senator KERRY. To what degree was the decision to move out motivated by concern over General Noriega and his involvement in Panama?

Mr. LLAQUE. No, really, we did not take that into account at all. We were just worrying about the problems of BCCI itself. In any case, Panama really did not offer us the security it used to because of its political problems. So the Central Bank was looking for other places to deposit its funds. So in 1988, approximately, our bank made its deposits in Swiss banks.

Senator KERRY. Who is Mr. Alberto Calvo, R. Alberto Calvo?

Mr. LLAQUE. I do not know him, Mr. Chairman.

Senator KERRY. Do you know who Mr. Daniel Carbonetto is?

Mr. LLAQUE. Daniel Carbonetto was an adviser to the Peruvian Government between 1980 and 1985. He was an adviser to the President of Peru. I meant 1985 to 1990. Excuse me.

Senator KERRY. We have a vote. We will stand in recess for the duration of the vote. As soon as we return, we will pick up where we leave off.

We stand in recess.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order.

Mr. Llaque, thank you. We are just going to be a few more minutes. I just want to try to establish a couple of things here if we can. Let me ask you again. You are saying that Mr. R. Alberto Calvo is not somebody who is known to you? You never heard of him?

Mr. LLAQUE. That is correct. I have never heard of him, Mr. Chairman.

Senator KERRY. What about Mr. Shafi?

Mr. LLAQUE. Shafi. No. I do not know him nor do I have him in the documents that I have here before me.

Senator KERRY. What about Mr. Oscar Riizo Patron?

Mr. LLAQUE. No, I do not know him either.

Senator KERRY. Just asking a curious question to see if you can identify any of these documents. Now, I want to understand then the substance of your testimony is that BCCI presented itself because of the need to find credit somewhere, because there was a number to count, because there was security, and the decision was made to get the line of credit from BCCI and put Central Bank money into BCCI in return. Is that accurate?

Mr. LLAQUE. Yes, if you would allow me. I would just like to explain these decisions were taken gradually. Let me explain.

At the outset, we had information—here I am talking about April 1986—that BCCI had capital of a bit more than $1 billion—or $100 billion. So through the board of directors, we decided that we could deposit approximately 10 percent of that amount in capital.

Later, in the face of our need to get more credit, this percentage went up and that was when we had a bit more than $200 million on account. This was decided first at a technical level. It was a recommendation, not a decision.

We have a staff in the Central Bank which is very professional. They are investigators and economists, and they draw up reports and they are taken to management—first to the general manager and then to the board of directors. And that is where the decision is taken. So you cannot talk about a person negotiating for the Central Bank. The terms, the concrete terms, were simply established for the deposits and the credit. Then this was taken to the board for its final approval.

Senator KERRY. On August 7, 1987, you received a memorandum which said in three paragraphs—let me read the paragraphs.

Paragraph A: The legal establishment of the BCCI Holding Luxembourg, with headquarters in Luxembourg, does not offer the guaranty of being the lender of last resort in case of a default in any of its operational units.

B, the last 2 years of the bank in mention showed significant losses in operations in the options market, and C, it uses an unusual accounting system in that it does not make it possible to clearly identify the level of losses of the fiscal year or the activity that led to them.

Now those are the three substantive reasons that you decided to begin to pull money out. Is that accurate?

Mr. LLAQUE. That is right. I was referring to that memorandum when I first spoke. This was August 7, 1987, and there was another memorandum to the general manager recommending the withdrawal of funds specifically. This is a document dated July 21, and it was approved by the board August 13, and there it was decided finally to withdraw the deposits.

Senator KERRY. So in 1987, it was known that the bank had an unusual accounting system, and that was known in London. It was known that the bank had significant losses in the options market, not a traditional place for banks to be fooling around. And you did not have the ability to be the lender of last resort—that is, its deposit base, its capitalization was in question. Correct? In 1987.

Mr. LLAQUE. That is right.

Senator KERRY. This document will be made part of the record in sequential order.

[The information referred to follows:]

CRS-15

Translation - Spanish

Central Reserve Bank of Peru
SABE/3.08.2.1.2No. 020-87

MEMORANDUM

To: Juan Villanueva
Asst. Manager of Intl. Investments,
Planning and Relations

From: Gonzalo Aramburu
Chief, Section Analysis of
Foreign Banks

Ref: Telex IBCA Banking Analysis Ltd.
London DEL 07/31/87

Date: August 7, 1987

Attached to this document you will find the telex received from IBCA Banking Analysis Ltd., London, where they report the following to us:

a) The legal establishment of the BCCI Holding Luxembourg, S.A., with headquarters in Luxembourg, does not offer the guarantee of being the lender of last resort in case of a default in any of its operational units.

b) The last two years of the bank in mention showed significant losses in operations in the options market.

c) It uses an unusual accounting system in that it does not make it possible to clearly identify the level of losses of the fiscal year, or the activity that led to them.

Because of the above, as well as the high level of placement that this Central Bank has in that bank, it is recommended that the operational technical level be reduced.

Sincerely,

Translation - Spanish

CENTRAL RESERVE BANK OF PERU

MEMORANDUM

To: Ana Ma. de Reategui
Manager, International Operations

From: Carlos Saito
Asst. Manager, International Investments,
Planning, Relations

REF: Evolution of BCRP deposits abroad

Date: July 8, 1987

According to your request, I am pleased to send you a report on the evolution of the BCRP deposits abroad, considering the fundamental aspects that affected their operative handling and the decisions to mobilize the assets abroad.

At the same time, reports are included corresponding to the International Settlements Bank (BIS) and the Bank of Credit and Commerce International (BCCI).

Sincerely,

CRS-20

DEVELOPMENT OF BCRP DEPOSITS ABROAD

1. Until mid-October 1984, the administration of the currency deposits abroad was carried out according to the joint application and consideration of the criteria related to the administration of assets in normal times: reciprocity, security, liquidity, efficiency, and yield. Column 1 of the attached chart reflects what was in practice the application of the criteria of reciprocity and security (diversification of risk) reflecting the number of banks and markets involved. The distribution of funds by types of deposit (current, call and term) which responded to the criteria of liquidity, efficiency, and yield.

2. As of mid-October 1984 the country began to have a series of problems with its private creditors as well as some international organizations, due to problems related to the payment of its foreign debt, it being necessary to take emergency measures whose results can be seen in the second column of the attachment.

3. The first measure taken was to withdraw practically all our deposits from U.S. banks, transferring the majority to the Fondo Andino de Reserves (FAR: Andean Reserve Fund) as of November 1, 1984, and to European banks. In addition, in the desire to ensure all of our funds, the BCRP decided to seek markets or institutions that met the fundamental requirement of funds not being subject to attachment.

4. In this context deposits were made in several currencies in the Bank for International Settlements (BIS), the only institution at that time that met the requirement mentioned above, and it began to receive funds as of November 18, 1985 even though the remuneration for our deposits was always 1/4 below the referential market rate. Toward the end of January 1985, FAR and the BIS had almost 50% of our term deposits abroad. (See column 3)

5. Diverse inquiries and legal definitions determined that the FAR funds were not immune to a attachment and therefore, as of July 15, 1985 the funds began to be withdrawn and transferred to the BIS. (See column 4). The US $70 million remaining in the FAR were kept as reciprocity for the loan that this organization had made to the country.

6. Having the BIS as a safe institution and fearing that the reprisals could come also from the rest of international correspondent banking, since at the end of September the divergences became accentuated between the new Peruvian government and the IMF and creditor banking, it was decided to withdraw all the time deposits (even before their date of expiration) from all correspondent banking and to concentrate them in the BIS. This process culminated at the end of October (see column 5).

7. Once these emergency measures were taken, the BCRP decided to reestablish its policy for investments of current assets within a context of maximum security and not just in the part corresponding to foreign currencies but also in those made up of precious metals. In addition, an additional element is introduced, that of reorganization of portfolios.

Regarding foreign currencies, it was decided to open special accounts in the market in Panama, which have maximum security. Also consultations were made in places such as

Austria, Switzerland, Liechtenstein and others but they do not manage to meet the BCRP requirements.

8. Toward the end of November 1985, the search for correspondents with numbered accounts in Panama was necessary in view of the BIS refusal to provide yield for our funds that were renewed as of that date if they were not decreased considerably. At the end of December work was underway with four banks in Panama in which around US $333 million had been deposited in term deposits coming exclusively from the BIS, thus alleviating the above-mentioned problem with the latter institution.

9. This process of opening accounts in Panama continued; so it is that at the end of June 1986 work was already underway with seven banks, which had US$ 362 million in deposits. The last bank with which correspondent relations were established was the Bank of Credit and Commerce International (BCCI) with which work was begun under the system of special accounts as of June 27, 1986. At the end of the same month this bank had deposits of US$ 65 million. (See column 7)

Regarding the numbered accounts in Panama and the deposits maintained in the banks of this market, two aspects must be kept in mind. On the one hand, the conditions that make the BCRP prevail are "sui generis" (special contracts for the handling of accounts, commitments of no possibility of attachlment, right of set-off, comfort letters, etc.) and in some cases they hinder the negotiations and in many cases they cancel them definitively.

On the other hand, it is known that one of the conditions of security for keeping funds in a bank is not to exceed a certain total related to its capital and reserves, for example. In this respect care was taken, except for special cases or acts of god, to keep them within those limits.

10. The situation described in the above section continued to mean keeping deposits in the BIS. This lasted until February 18, 1987 when all funds were finally withdrawn, which at the end of 1986 had already been reduced to US$ 293 million allowing the Panama market to gain US$ 565 million on that same date.

Meanwhile, given the credit facilities granted by the BCCI, the BCRP in reciprocity went on increasing its deposits in that bank. On September 30, 1986 the term deposits exceeded US$ 145 million, at the end of 1986 they were US$ 229 million and in February of this year rose to US$ 242 million.

11. The situation from February to date has undergone slight modifications. On the one hand, thanks to the creation of the FAR Treasury Notes, highly liquid, and of easy transfer by endorsement, the deposits have been increased in this institution, and they currently total some US$ 113 million.

On the other hand, the agreement for the handling of numbered accounts was signed with Credit Lyonais.

Regarding the distribution of time deposits in Panama, which represented 84% of the total of this type of deposit, one should note the share of the BCCI, which with US$ 245 million constitutes 27% of the funds deposited in that market and 31% of the total term deposits.

12. The steps that the BCRP was taking were also reflected in the handling of the call accounts, this in respect to a number of banks since the level of funds to be maintained in this account follows the operational goals of the moment. This evolution can be seen in attachment 2.

- Although the number of banks that handled the call accounts was reduced to almost half, it is worth noting the concentration of these funds. Just three banks with numbered accounts in Panama currently handle more than 90% of the call accounts. (See attachment 2)

13. Finally, some comment must be made on the profitability of our funds abroad. In this sense it should be mentioned that with the exception of the BIS, which always paid on our funds with 1/4 percent below market, all the rest of our deposits on time have been paid at a rate similar to or above the market rate.

Regarding our deposits in the BCCI, for example, a calculation of the accumulated yield of all our deposits until June 1987 with respect to a referential market rate, shows a favorable total for this bank (See attached graph).

CRS-7

Translation - Spanish

Central Reserve Bank of Peru
DIM/3.08.2.1.0-No. 003-87

MEMORANDUM

To: Carlos Saito
Asst. Manager of Internatinal Investments,
Relations, and Planning

From: Arturo Handabaka
Chief, Market Research Dept.

Re: Relations with the BCCI

Ref: 1) Memo SGP 11/45 of 4/1/86
2) Board Agreement of 8/14/86
3) Memo SGP11/256 of 12/26/86
4) Memo SGP 11/279 of 7/13/86
5) Telex BCCI-Panama of 7/22/87

Date: July 22, 1987

The purpose of this memorandum is to do an inventory of the main aspects that have determined our relations of international treasurership with the BCCI, as well as to make known new elements of judgment that should be taken into account in our future relations with that institution.

Through the first document of reference, the Asst. Management of International Investments, Relations and Planning, at the suggestion of the General Management, proposed the opening of correspondent relations with the BCCI-Panama, in view of the wilingness of that entity to grant us lines of credit for purposes of foreign trade, as well as because of the good financial-economic situation of the home office in Luxembourg, i.e. the BCCI Holding, 100% owner of the BCCI Overseas of Grand Cayman and at the same time 100% of its Panama branch.

Due to the existing relationship between the BCCI-Panama and the home office, as well as the commitment of the latter to back all the activities of the first, it was established that the deposits that the BCRP made in the future would have as reference the capital and

reserves of the home office, since in 1984 it exceeded US$ 1.009 billion, and the limit of deposits US$ 100 million (in capital and reserves).

/Note: text may be missing, as the next page of the memo begins with a 3./

3. Given the difficulties at that time in getting facilities for purposes of foreign trade and the amount that the BCCI was granting in exchange, the Board of the Bank approved the correspondent relations, accepting the concrete proposal of that foreign bank to the effect that it would grant us a line of credit up to US$ 60 million, at the same time making a deposit up to US$ 200 million. (Document 2).

4. Subsequently, around the end of 1986, the BCCI decided to increase the previously-mentioned line to US$ 110 million in exchange for the increase in our deposits up to US$ 250 million. As indicated in document 3 of reference, our deposits between call and time rose on 11/26/86 to US$ 255 million. This level, with some variations, has been maintained to the present.

5. The utilization of the line of credit, according to the Department of Operations in Foreign Currency, has at its moments of highest demand reached US$ 80 million, approximately, there being no operational problems in the handling of the line, nor with the deposits which are kept in that institution.

6. However, it should be mentioned that the reciprocity that the BCRP maintains with the BCCI is more than what it has with the other banks with which it currently works, with the exception of the Deutsche Sudamerikanische Bank, which handles almost all the call accounts in Panama and has preferential treatment because of being regional. Something similar can be observed in the level of the ratio deposits BCRP/Capital and BCCI Reserves.

In effect, with the exception of the Banks Sudameris and Bladex, which being small have quite a high statement in Peru regarding their own capital and reserves, the deposits that the BCRP maintains in the BCCI represent 18% of the capital and reserves of this bank.

7. New elements of judgment have arisen that have led to this memorandum and that we believe should be taken into account for our future relations with the BCCI. In fact, in document No. 4 of reference, endorsed by No. 5, one can see unsatisfactory results of the BCCI Holding S.A. (Luxembourg) and what is more, they seem to worsen year by year. Their net earnings decreased substantially and with them the yield on their assets, indicating bad performance of the bank during 1985 and 1986.

In its annual report for 1986, the BCCI credited these poor results to adverse effects coming, on the one hand, from significant devaluations in certain developing countries where the Group operates and the smaller differential margins during the year; and, on the other hand, to the exceptional losses that the group had to assume as a result of the poor transactions of options contracts by the Grand Cayman subsidiary, which at the end of 1985 had lost US$ 150 million.

These losses were absorbed almost totally during the 1986 fiscal year and it is hoped that they will not have a considerable influence on the results of this fiscal year.

CRS-9

In addition, proceeding with the Group policy of strengthening its patrimonial base, the 1986 report pointed to a considerable increase in the bank's capital. A part of this increase comes from the issuance and total subscription (by the stockholders themselves) of US$ 250 million in stock, as well as of other subscriptions for US$ 370 million in replacement of US$ 306.5 million that they were redeeming.

8. Because of the above, and precluding some other greater problem that the BCCI could face, a fact that recently could be known in the middle of the next year with the bank balances or just shortly before through specialized means, this Department suggests reviewing the level of deposits being held in the BCCI, to the extent that the necessary reciprocity that should be maintained allows.

Sincerely

/illegible/

CRS-10

Translation - Spanish

Central Reserve Bank of Peru (BCRP)

MEMORANDUM

Date: 8/26/87

To: Cesar Ferrari Quine
General Manager a.i.

From: Ana Maria T. de Reategui
Manager, International Operations

RE: BCRP relations with the BCCI

Ref: Memo No. 302.2.0.1.0.0

Attached to this memorandum you will find the report referring to our relations with the Bank of Credit and Commerce International, which was requested by the Board of Directors of our Institution through the memorandum of reference, in expansion of Document No. 0536 heard in the session of the 13th of this month.

Sincerely,

CRS-11

BCRP RELATIONS WITH THE BCCI

1. In view of the restrictions that were being observed regarding the availability of lines of credit from abroad, the Board of Directors of this Central Bank decided to adopt measures leading to seeking, through the direct participation of the Central Bank, to offset those restrictions somewhat.

Among these measures was one to carry out operations with new correspondents, seeking to obtain reciprocity for deposits of the Central Bank, through lines of credit offered by those banks. In this respect the Board designated the President and General Manager to establish contact with banks from abroad.

2. In this context, in March 1986 I received the order from the General Management to evaluate the possibility of opening a correspondent relationship with the Bank of Credit and Commerce International (BCCI).

3. The Board of Directors of this Central Bank, in a session of April 1, noted the report prepared by the Management under my responsibility, in which it was recommended that the bank proceed to open the corespondent relationship with the BCCI and make deposits in that bank up to US$ 100 million, a sum equivalent to 10% of the capital and reserves of the BCCI (Attachment 1).

In that matter, it should be noted that as a general standard for the purposes of proposing the maximum sums to be deposited in our correspondent banks, one takes into account 10% of the capital and reserves of the respective banks.

4. After analyzing the report mentioned in point 3, and after taking note of the verbal report presented by General Management, noting the offer of the BCCI to grant a credit line for purposes of foreign trade of up to US$ 60 million, the Board of this Central Bank, in a session of April 1, agreed to make deposits up to US$ 200 million. (Attachment 2)

5. From that time, the Management under me began steps to establish a correspondent relationship with the BCCI, Panama, as well as to sign an agreement on numbered accounts with that bank.

6. The steps referred to in point 5 culminated on April 28, 1986, the date on which after having reviewed the pertinent documentation (General Business Agreement for the Handling of Numbered Accounts, Comfort Letter and Commitment Letter), the "Numbered Account" agreement was signed with the BCCI, Panama, in which the opening of current accounts was made feasible, as well as call and term deposits. (Attachment 3).

7. On that same date (4/28/86) the BCCI, through its officials in Panama, formalized their offer of a commercial credit line of US$ 60 million, to be used in the confirmation of letters of credit of importation and on demand and in the financing of exports. The offer was for a one-year period, with possibilities of renewal, and with an interest rate of prime plus 1%. (Attachment 4).

That offer was contingent upon the deposits made by this Central Bank, up to US$ 200 million, being maintained with "sufficient equivalent totals," as noted in the communique of 4/28/86 (Attachment 5), which was attached to the letter in which the credit line mentioned above was offered.

In that respect, it should be noted that these communications were delivered as preliminary working documents, and were signed just by the BCCI officials, Panama, and without having evaluated the details of the operativeness of that line of credit.

8. Regarding the beginning of our deposits, through the instructions of General Management, action was taken in the following manner:

a) On May 5, 1986, the Deutsche Sudamerikanische Bank, Panama, was instructed to transfer with value date of May 6, US$ 15 million to the BCCI, Panama, for the purposes of opening a current account in that correspondent. That transfer was aimed at initiating the correspondent relations and that sum of US$ 15 million was maintained until the agreement was signed, through which they granted us the credit line up to US$ 60 million.

b) As of May 7 and 8, 1986, deposits were made in call accounts, for US$ 100 million, respectively, the sum of US$ 200 million being kept until the end of that month.

The Board of this Bank, in a session of May 16, 1986, approved the creation of the Export-Import Fund (FIEX), in order to facilitate foreign trade. That fund was initially formed with US$ 60 million offered by the BCCI.

In that session in addition, the distribution of these resources among the entities of the Financial System, at the proposal of the Assistant General Management, was approved (Attachment 6).

/page missing in text, including remainder of 8, as well as 9, part of 10/

of import credit on demad and with payment deferred up to 90 days, financing of exports based on letters of credit on demand or term of payment up to 180 days and financing of exports not based on credit letters with term of payment up to 180 days.

That line of credit was signed for a period of one year, subject to review every six months, and renewable after the year. The distribution of resources was the one agreed upon by the Board in its session of May 12, 1986 and the rate of interest on the financing was set at 1.25% over the prime rate, which is competitive with those charged by other foreign trade credit sources, ours being considered a "risk country."

As can be seen, the rate differed by 0.25% from the one offered by the BCCI in its communique of 4/28/87. This rate was the minimum one accepted by the Regional Office for Latin America of the BCCI, whose officials were responsible for the signing of the agreement, in consideration of the operational costs associated with the participation of more than 20 banking institutions of Peru. Initially the BCCI, Panama, made its interest rate offer under the understanding that the line would be handled exclusively by the BCRP and used for operations of significant sums.

CRS-13

11. In signing the agreement mentioned above, the BCCI notified us that in view of our deposit of US$ 200 million, they were puting at our disposal the line of US$ 60 million, under our mutual understanding that in case the total deposits should decline to below the credit facilities granted, the lines of credit would be reduced for us accordingly. (Attachment 8)

12. As of June 19, 1986 the BCRP signed the corresponding contracts of allocation of the FIEX-BCCI with the different financial entities, so that the resources of that line would be used.

13. The utilization of the FIEX-BCCI line, although quite gradual, did not show operational difficulties; to the contrary, in few months the banks of greater movement began to demand increases in that line.

In view of that situation, in December 1986, this Management began conversations with the BCCI in order to gain an increase in the line. After the evaluation of the banking needs and in coordination with the General Management, a request for increase in the line of US$ 50 million was formalized, whose distribution is seen in Attachment 9. On this occasion, there was negotiation so that the line would take place with an increase in the deposits by US$50 million.

14. On March 12, 1987, the second FIEX-BCCI agreement was signed, in the amount of US$ 110 million, which included the US$ 60 million from the first agreement (Attachment 10).

In this new agreement there are some favorable variations: the time for confirmation of the import credit letters is increased from 90 to 180 days and the financing of imports up to 180 days is included.

With the signing of this second agreement, the BCCI delivered to us a communique, in terms similar to those described in point 11, with the change that the deposits were US$ 250 million and the line was for US$ 110 million (Attachment 11).

15. It should be noted that throughout the period of validity of the FIEX-BCCI agreements, there have been redistributions of resources between the financial entities, based on the rates of utilization of those resources.

16. The initial deposits made by this Central Bank under the modality of current and call accounts, were subsequently converted to time deposits for the most part, keeping in mind the larger yield that this latter would provide compared with the former. (Attachment 12)

With respect to the characteristics of the term deposits, it should be noted that they have been being renewed generally in periods of one month, a rate of interest being obtained whose accumulated yield shows favorable results with respect to the one that would be obtained according to the referential market rate.

It should be noted that the rate obtained is significantly higher than the yield obtained by our deposits in other correspondent banks (Bank for International Settlements, BLADEX, Swiss Bank, Bank of Tokyo, Credit Lyonnais, among others), in which, however, we have found it necessary to maintain deposits for security in case of attachment and in order to diversify our risks.

At present, this Management is taking steps with the BCCI for a new increase in the line, of US$ 110 million to US$ 140 million, which would be obtained in reciprocity to the deposits already made in the amount of US$ 250 million, which through a telex of 8/19/87 has been accepted by the BCCI. (Attachment 13).

That increase will be of great utility given the recent greater reductions observed in the availability of lines of credit from abroad.

Additionally, and in coordination with the General Management, the BCCI has been asked for US$ 20 million additional, which would raise the line to US$ 160 million.

FROM REPORT OF PERUVIAN CONTROLLER GENERAL 88-CG/SF

CRS Congressional Research Service • The Library of Congress • Washington, D.C. 20540

Translation - Spanish

Chart No. 6

Surpluses Shown in 1986
(Millions of US$)

Banking Entity	Approved Tech. Lt	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Deutch Sud.	140	268	117	90	64	23	47	93	9	-	29
Swiss Bank C.	140	148	163	-	-	3	-	-	-	-	-
Bco. Nac. Argentina	50	63	-	1	1	1	1	1	1	1	2
Bladex	20	-	-	-	-	-	-	-	-	-	-
Banque Sudamer.	20	1	-	-	1	1	1	1	1	1	1
Bank of Tokyo	140	-	-	5	7	8	10	11	11	29	9
Bank of Brazil	50	-	-	1	1	1	-	8	5	7	-
BCCI	200	-	-	-	-	15	16	3	2	-	6
Total:		480	280	97	74	52	75	117	29	38	47

The surpluses observed during the first months and which reached a total of US$480 million and US$ 280 million respectively are explained by the need to increase the number of banks with which the BCRP could operate through numbered accounts, and by the refusal of the BIS to renew the growing deposits that were kept in that entity.

However, during the months of March to October significant excesses were registered over the maximum limits of deposits approved by the Board of Directors, without the express authorization of that level, mainly in the Deutsche Sudamerikanische, Bank of Tokyo, Bank of Brazil and the BCCI.

Although the BCRP call accounts were handled in the Deutsche Bank, during the months cited the issuing institute kept resources in this account that exceeded the limit approved by the Board of Directors, without considering the important time deposits that were renewed in that entity. In the Bank of Tokyo and the Bank of Brazil, time deposits were made and kept above the limits referred to, which, in the case of the first bank, caused a greater excess, in considering the deposits in call accounts on the order of US$ 6 to 7 million.

Early in November of 1986, an extraordinary entry of foreign currency coming from the sale of gold made came about, causing an increase in the levels of deposits of the BCRP in banks abroad. At a session of the Board of Directors (November 7, 1986), the limits were modified for the handling of the deposits according to what has been stated, and it was determined that they would be adjusted periodically at the suggestion of the International Operations Management, after acceptance of the General Management.

CRS-2

In evaluating the compliance with said limits, permanent surpluses were seen in the Deutsche Sudamerikanische and in the BCCI (overseas), in the amounts indicated in the following chart:

Chart 7

Excess Amounts Appearing in 1987
(Millions of US$)

Banking Entity	Approved 1986	1987											
	Tech. Lt.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	July	Aug.	Sept.	Oct.
Deutsch Sudam.	200	11	--	--	61	--	89	61	45	29	93	3	6
BCCI	200*	7	53	41	63	20	4	7	14	18	1	28	28
TOTAL		18	53	41	124	20	93	68	59	47	94	31	34

*As of Sept. 10, 1987, it is reduced to US $160 upon the orders of General Management

The surpluses in the Deutsche are explained because of the decision of the BCRP to maintain time deposits in that bank above the US$ 114 million after February 1987, among which some US$ 38 to 45 million are included as collateral for the line of credit of DM 66 million granted, which, added to the resources in call accounts above US$ 120 million, caused said situation. The BCCI case is discussed in a specific observation.

The deficiency mentioned originated in the lack of periodic information to high management regarding the status of total deposits per bank (time deposits, call and demand accounts), and the maximum limit approved by the Board of Directors in the matter, as well as the reasons that cause any excess, in order to decide on the pertinent corrective measures. This information is obtained, partly, through the daily reports called "Position of Eurodeposits on time" and "liquid assets in foreign currency," which, because of being statistical documents issued by different areas of the bank, are not consolidated or analyzed in order to issue a timely opinion on the facts noted.

One should also note the case of the deposits made by International Operations Management in the Credit Lyonnais during 1987, which, between February and July of that year reached a level fluctuating between US $90 and 100 million.

The opening of the respective numbered account and the setting of the maximum limit to be deposited in that financial entity was not approved by the Board of Directors, as seen in the respective minutes, and according to what the Bank Administration admits. However, it is adduced that said authorization of the Board of Directors, regarding the periodic adjustment of the maximum limits for deposits (Session of November 7, 1986) included the power to decide on depositing resources in the Credit Lyonnais, which was not in keeping with the text of the session proceedings and attachments.

These situations have caused the failure to comply with the express instructions of the Board of Directors, meaning that greater risks were taken than those technically recommendable and authorized regarding the international reserves deposited in Panamanian banks.

3.4 Deposits have been made up to US $270 million in numbered accounts opened in the BCCI (Overseas), obviating minimum standards of security and credit reciprocity

During the period in which numbered accounts were opened in Panamanian banks, an effort was being made fundamentally to protect the international assets against any risk of attachment or coercive action promoted by the creditors of the country, without overlooking the evaluation of the financial entity in which the resources would be deposited. Thus, to January 1986, authorization had been granted to operate with eight Panamanian banks up to certain maximum deposit limits.

Given the accelerated restriction of the short-term lines of credit for financing the foreign trade of the country, the Central Reserve Bank decided to work with banks that agreed to give some reciprocity for its deposits, through lines of credit.

Under these circumstances, the Board of Directors, in a session of April 1, 1986, approved a correspondent relationship with the Bank of Credit and Commerce Int. (Overseas)-BCCI, accepting the concrete proposal in the sense of receiving a line of credit for US$ 60 million for making a deposit of US$ 200 million, this being the first line of credit of this nature granted throughout the history of the deposits made by the BCRP.

The approval of the correspondent relationship under the conditions mentioned lacked the necessary information for meeting the assurances of the case and the minimum reciprocity, as seen below:

a. Document No. 212 attached to the minutes of the Board of Directors of April 1, 1986 as support for the approval, does not include all the minimum information required as general standards for approving correspondent relationships with banks abroad (Session of 3/4/82). In fact, information is not included on the financial status of the BCCI (Overseas) or of management ratios of the past three years, it being mistakenly pointed out that the BCRP only had information up to 1981. It is understood that for reasons of security it was necessary to evaluate the BCCI Holding, for purposes of requiring a "Comfort Letter" as an additional guarantee; but the fundamental security of the BCRP deposits in the BCCI (Overseas) was based on the management and performance of this bank, which was not evaluated.

Nor was there a comparison of the information of the Holding and the bank with the performance of other correspondent banks of similar magnitude, in order to evaluate their importance and management.

Document 212 evaluates the importance of BCCI Holding by comparing the level of its assets with respect to the largest banks in the world (IBCA Banking Analysis Limited-1984) sidestepping the analysis of the financial-economic status of the subject of the corresponding relationship: the BCCI (Overseas), and neglecting to comment on the importance of the bank in the financial markets in which it operates.

It should be noted that the approval of the correspondent relationship by the Board of Directors does not mean the corroboration of the sufficiency of the information provided by the Bank's administration and specifically the Management of International Operations. It is the

responsibility of the technical area to provide sufficient information to allow the adoption of correct decisions.

b. There was no evaluation of the background of the BCCI - Holding or of its main subsidiaries (BCCI-Luxembourg and BCCI-Overseas), considering that they were not correspondents of the BCRP, they lacked exposure and in the files of the issuing institution there was qualitative and quantitative referential information on these banks, contained in the "Application of the BCCI-Luxembourg for opening a branch in Peru" (A/D of 2/1/85). Among that information was a report of IBCA Banking Analysis Limited London which indicates the BCCI S.A. of Luxembourg as being "aggressive and innovative and that on several occasions it had had problems with the supervisory authorities," such as the Bank of England.

In addition, in evaluating that Bank from the legal point of view it considered it in 4th or 5th place, i.e. it placed it in one of the last places.

Although International Operations Management states it did not have such information in its possession, it knew of its existence and could have made an effort to obtain it. In any case the Bank Administration proposed to the Board the approval of the corresponding relationship, neglecting to report on that background dealt with at that level by the members of the Board operating until 1985.

c. There was no analysis or evaluation for practical purposes of the security of the BCRP deposits and of the effectiveness of a Comfort Letter, and of the importance of the fact that BCCI-Holding and its two most important subsidiaries had their main offices in Luxembourg and the Grand Cayman. Those financial centers were characterized by their great liberalness and because the monetary authority does not guarantee the deposits or offer any services such as lender of last resort, i.e. in case of financial emergency the authority will not come with assistance from these financial institutions, the latter having to rely on the financial capacity of its stockholders.

It should be noted that this opinion was shared by the Central Bank, and it was a preponderant factor for withdrawing some 58,000 O.T. in gold which it kept in the Dresdner Bank-Luxembourg (A/D 6/6/85).

d. Documentary evidence is lacking prior to the approval of the correspondent relationship, of having requested and/or negotiated other concrete proposals for lines of credit in order to have alternatives among which to choose the best, considering the criteria of security and of minimum reciprocity. It is estimated that the BCCI (Overseas) proposal was the only one that existed and that it was accepted under conditions far from a minimum security policy.

The Bank Administration indicates that subsequently they requested lines of credit from all correspondent banks with which they maintained numbered accounts in Panama, which refused to increase their exposure in Peru. That action has not been documented.

The pertinent documentation (General Business Agreement for the Handling of Numbered Accounts, Comfort Letter and Commitment Letter) was signed on 4/28/86, the commitment being obtained from the head office (BCCI-Holding) to back its BCCI (Overseas) affiliate in all its activities. It is on the basis of this consideration that initially the Deputy Management of International Investments and Investments recommended a maximum deposit

limit of US$ 100 million, equivalent to 10% of the capital and reserves of the Holding, in order to obtain the line of credit of US$ 60 million; however, the Board authorized the deposit of US$ 200 million for the same total line of credit.

CHART No. 8

Evolution and Importance of Deposits in the BCCI

	DATE	Deposits in the BCCI (US Millions)	Share in the Total Deposits	Amount Above Limit
1986	5/14	215,196	16	15,196
	6/27	201,933	15	1,933
	7/31	204,042	15	4,042
	8/29	199,031	16	--
	9/30	196,380	15	--
	10/31	206,772	15	6,772
	11/21	207,056	17	7,056
	12/31	253,287	24	53,387
1987	1/30	257,597	25	57,597
	2/27	261,499	28	61,499
	3/31	254,423	31	4,423
	4/30	253,435	28	3,435
	5/29	256,231	26	6,341
	6/30	270,709	28	20,705
	7/31	262,568	28	12,568
	8/31	251,269	29	1,265
	9/30	188,143	28	28,143
	10/30	188,227	31	28,227
	11/20	153,126	36	--
	12/30	114,353	33	--

With respect to the technical limits for deposits in the BCCI approved by the Board in the amount of US $200 million as of May 1986 and of US$ 250 million as of March 1987, excesses have been shown almost constantly in those authorized levels during the period May 1986 - October 1987 (one year and four months) as shown in Chart No. 8, the case appearing that between December 1986 and March 12, 1987 these were more than US$ 50 million in excess, explaining the concentration of deposits in the BCCI (Overseas) Ltd., on the order of 24% to 28% without the express authorization of the Board or of the General Manager, according to the Agreement of the Board of November 7, 1986, but with the knowledge of the Management of International Operations, as indicated in Memorandum SGPII/3.08.2.0.0/256 of December 26, 1986.

In addition, through a letter of April 28, 1986 the BCCI (Overseas) Limited informed the BCRP that in consideration of the deposits of US$ 200 million it was granting it a line of credit for US$ 60 million, it being understood that in case of decline in the deposits below the credit facilities granted, the line would be reduced.

It is appropriate to note that in March 1987, the line was increased to US$ 110 million, but that the maximum amounts debited in their use only reached around US$ 85 million. However, the reciprocity that the BCRP maintained with the BCCI was always above that received (US$ 250 million in deposit against the line of credit used up to US$ 85 million) and even much above what it was keeping with other banks with which it worked, no evidence being found of the reasons for this significant concentration of resources.

As can be seen in the following chart, the reciprocity that the BCR maintained with the BCCI was 3.31 more than what it had with the other banks with the exception of the Deutsche Sudamerikanische BK, which handled the call accounts of the BCRP in Panama and had preferential treatment since it was a regional bank.

The facts pointed out show that initially the BCRP did not investigate sufficiently into the background of the BCCI (Overseas), which would receive a significant part of the country's reserves in deposit, nor into the Holding that would support it in the operations, assuming a risk greater than the one technically recommendable and without considering a criterion of minimum reciprocity.

At the same time, during 1986 and 1987, the issuing institution kept high sums in the international reserves deposited in those banks, generating a high concentration of assets in currencies in that bank, thus increasing the risk initially assumed. On December 31, 1987, the total deposits in this bank reached US$ 114,353,000.

If it had not maintained such high immobilized sums in this bank, the BCRP would have been more dynamic in the search for new lines of credit as reciprocity for the deposits that it could establish.

The lack of constant information for the Board on the total deposits maintained in the correspondent banks (term, call, etc.), and their relationship to the technical limit approved for that level, explain the permanence of this situation.

CHART No. 9

Concentration of Deposits and Credit Reciprocity of the BCCI with respect to Other Correspondent Banks

	Capital & Reserv. 12/86 (1)	Total Depost. BCR-7/20/87 (2)	Expos.** (3)	Recip. (2) + (3)	Dp BCR/CAP & Res. (2) div. (2)
BCCI	1,471	265	80	3.31	18.0
D. Sudamerika BG	3,432	267	47	4.82	6.6
Credit Lyonnais	2,518	93	123	0.76	3.7
Banco do Brasil	5,448	66	86	0.77	1.2
Banco Nac. Arg.	1,145	53	16	3.30	4.6
Banque Sudameris	151	38	64	0.59	25.2
Swiss Bank Corp.	5,220	32	70	0.46	0.6
Bladex	75	20	55	0.36	26.6

** Latter data known provided by the foreign bank itself

Senator KERRY. Let me ask you this. What is the impact of this experience in terms of the Federal Reserve in Peru in its dealings with BCCI?

Mr. LLAQUE. Well, we have always been very careful in our relationship with our corresponding banks, as I said at the outset. This time, fortunately, we had no loss of any damage. This is very important for our Central Bank because under our constitution, our Central Bank does administer our country's reserves. And that is why we are so careful, I repeat.

Senator KERRY. When you say you had no loss, you were giving 50 percent on the dollar. So you took dollars and devalued them by 50 percent in order to be able to use BCCI in Panama. Is that not accurate?

Mr. LLAQUE. No. Technically in interbank operations this is not exactly the way it is. Let me explain. The deposits in a bank obviously earn passive rates and credits get active rates. There is a differential there. It is not a loss, but there is a differential between the passive rate it pays on the deposits and what it charges. This is really not a loss. This is a normal banking——

Senator KERRY. Is it normal to give 50 cents on the dollar?

Mr. LLAQUE. No. It is not that they gave us 50 cents on the dollar. It was simply a line of credit, and I want to recall once again what I already said. We had deposits in banks that did not give us any credits at all. It is not a matter of loss or gain. There was not an effective loss in the sense of the resulting account.

Senator KERRY. Mr. Llaque, thank you. Senator Cranston has a couple of questions and then we will move on to the next panel.

Senator CRANSTON. I think I have just two questions. First, how important is the phenomenon of drug money laundering in Peru? I would like to ask you to please be as specific as you can in terms of the amounts of money involved and its relative importance within the system of your country.

Mr. LLAQUE. We do not have any precise information on money laundering in Peru. We in the Central Bank set up standards, or set down standards for exchange operations, and we have free exchange at the present time so there is free availability and free transferability of foreign currency in Peru. Therefore, we cannot give any figures that could be indicative of money laundering. Our banks work freely abroad both in sales and in purchases and in all other banking transactions.

Senator CRANSTON. Do you have any impressions about the scale of money laundering without having any precise figures?

Mr. LLAQUE. Well, I do not have any information. I am talking as an official of the Central Bank. I have an area under me which has to do with exchange operations, but I do not have any information on the magnitude of this. We have not done any calculations of this kind.

Senator CRANSTON. What can you tell us about patterns of flight capital from Peru in the last 10 years?

Mr. LLAQUE. Well, in Peru there has been an economic policy which has changed a great deal over time. We have had differential exchange rates, we have had certain restrictions on capital, and this has caused some capital flight, more than likely, an aspect which has changed over the last few months. There is a lot of cap-

ital returning now, and there has been a notable return of capital to Peru over the last few months.

Senator CRANSTON. What has caused that return?

Mr. LLAQUE. In the first place, we established an exchange policy—a free exchange policy. For instance, there is no need to give the Central Bank the value of exports. There is no export control, and there is a new policy—a new investment policy from the point of view of the rules in the country as well as from the point of view of the rules of the Andean Group to which we belong under the Cartagena Charter, so there are certain advantages for foreign investors now, and this is what caused a return of capital. Not just foreign capital, but Peruvian national capital which had been held abroad.

Senator CRANSTON. Thank you very much.

Senator KERRY. Mr. Llaque, thank you very much. Again, we appreciate your testimony and we very much appreciate your patience and waiting until today. Thank you.

If we could have the second panel come up, Mr. Fausto Alvarado, Ms. Lourdes Flores, Pedro Cateriano, and Fernando Olivera.

Senator KERRY. Could I ask you each to stand and raise your right hand? Would you raise your right hand, please? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ALVARADO. Yes.

Mr. OLIVERA. Yes.

Ms. FLORES. Yes.

Mr. CATERIANO. Yes.

Senator KERRY. Would you each identify yourself, please? State your name and title or position, and bring the microphone close to you. State your name and your title.

Mr. ALVARADO. I am Fausto Alvarado. I am a deputy. I am a member of the investigating committee on the illicit enrichment.

Mr. OLIVERA. I am Fernando Olivera. I am president of the investigative committee of the Parliament of Peru, the deputies examining the financial operations in Peru and abroad regarding the former President of Peru, Alan Garcia Perez.

Ms. FLORES. Lourdes Flores, the commission's head.

Mr. CATERIANO. Pedro Cateriano. I am a deputy and member of the investigative committee regarding the presumed illicit enrichment of former Peruvian President Alan Garcia Perez.

Senator KERRY. Each of you has identified yourselves in a way that makes a statement about the former President, which is not what we are looking at here.

We are looking at the question of BCCI, and I want to know the relationships, but I do not want to know unsubstantiated allegations or anything that is not known as a matter of fact, that is not supported by document or by testimony. What we really want to know is how BCCI operated in Peru, and to get a sense of what is known as a matter of record about its dealings there.

I must ask you in the openings to try to be brief, because we really want to have some time for questions. We are running behind again. We cannot go into the afternoon, and we have Argentina, which we also want to cover afterward, so the shorter you

are with respect to the openings, the more time we will have to ask questions.

Now, is one person going to speak for you in an opening? Is your chairman going to speak? I gather, Mr. Olivera, you will be presenting an opening statement?

Mr. OLIVERA. That is correct.

Senator KERRY. We look forward to receiving it, and again, I will repeat to all of you we are very appreciative for your patience, and thank you for making this journey.

STATEMENT OF FERNANDO OLIVERA, MEMBER, PERUVIAN HOUSE OF DEPUTIES; ACCOMPANIED BY FAUSTO ALVARADO, LOURDES FLORES, AND PEDRO CATERIANO

Mr. OLIVERA. Mr. Chairman, distinguished Members of the U.S. Senate, allow me as my first words to express a feeling as a Peruvian which all of us in the committee feel, and I am sure almost everybody in the country. It is a feeling of indignation and enormous concern to see the name of Peru involved in a case of corruption where the eyes of the world have been targeted.

Yesterday, we saw the picture which showed how the BCCI operated and an example of corruption of the Central Bank was given. This was the Central Bank of Peru, I mean. I have to say very briefly that despite the fact that this is a case where corruption of officers of the bank, the Reserve Bank of Peru, has been demonstrated, it is not representative of what we, the Peruvians, are.

The great majority of Peruvians are hard working and honorable from their ancestors the Incas, when they summarized the feelings of Peruvian people by saying "No seas osioso, no seas mentiroso, no seas ladron."

This means, don't be lazy, don't be a liar, and don't be a thief, and I mean by that that in Peru we live in a democracy where the authorities don't cover up the commission of crimes, and that's why, in the Congress of my country, investigating committees have been set up to shed light on any commission of crimes or bribes, even up to the highest level.

These commissions before the U.S. Senate and before the eyes of the world are bound and determined to shed light on this case, and we have come here with a spirit of mutual cooperation between the two investigations which you are presiding over so well, Senator Kerry, and the investigations being carried on by our investigative committees, because unfortunately we must say that corruption transcends party lines. It does not distinguish as between ideologies. It does not respect frontiers or borders.

We can say here that the BCCI—BCCI are initials, not of Bank of Credit and Commerce International, but mean the Bank of Crime and Corruption International, and we have to defeat corruption everywhere, wherever it is, and we have to close ranks and fight together, all of us who fight for the cause of justice.

That is why I have come here to buttress our request for collaboration insofar as possible, because we are members of an investigative committee which has to expose its findings to the Peruvian Parliament and we will reveal things which can be revealed so that

the authorities of the world can support us in our investigations as well.

Moreover, we have to reserve some investigations that are still ongoing and which are still being confirmed or worked on. I will refer fundamentally to the operation of deposits of the international reserves of Peru in BCCI, in its Panama branch, and the operation of resale of 14 Mirage jets which belonged to the State of Peru and in which BCCI also participated, especially in its London office.

In 1986, the Central Bank of Peru deposited in Panama in the BCCI substantial amounts of our international reserves. It did so by a decision approved or made in May of 1986, and thereafter deposits were made reaching substantial amounts, and at one point even exceeded $200 million.

Senator KERRY. Let me interrupt you there. The question would be asked by the casual observer, so what? The bank competed. There were other banks that wanted to get into extending a line of credit because this meant money to them. They are in the business of making money. Peru needed an outlet, so what is so strange about that? I am just trying to take us down the road here a little bit.

Mr. OLIVERA. It was argued, as the officer of the Peruvian and Central Bank already said, that there was a possibility of attachment of our international reserves, and by means of legal studies conducted, Panama was chosen as a place which offered security to avoid such seizures or attachments because the Government of Peru had entered into a kind of rebellion.

In 1986 in Panama the Reserve Bank had reserves already in a number of prestigious banks—the Deutsch-Sidmenkanische Bank, Banco Tokyo, the Bank of the Argentine Nation, the Swiss Bank Corp.—this means that not necessarily did they have to go and deposit Peru's reserves in the BCCI as well.

Also, we have to say that in the decision taken to choose BCCI in Panama there were some very irregular procedures used, to say the least. Fernando Olivera is not the only one saying this, and neither is my commission. We are a bipartisan commission representing all the political sectors, including the Marxist Party, but our Office of Central Audit says this. This is the office which is supposed to supervise our accounts.

Report 008 of this year does say this in its report on how foreign deposits were handled. The Controller General of the Republic says that after documented study that deposits were made up to $270 million in numbered accounts opened in BCCI overseas following procedures for credit reciprocity and to get numbered accounts.

It is said here that to decide to place the Peruvian reserves there not all minimum information was even considered, as is usually considered to make such a decision, and in accordance with the rules of the board of directors itself.

Information was not included on the accounts and the state of accounts of BCCI overseas. The only accounts included were the holding committee—or company, rather, in Luxembourg, and this didn't have anything to do with BCCI in Panama and still doesn't. Panama is not the same thing as the holding company with headquarters in Luxembourg. So in a deceitful way, BCCI in Luxem-

bourg's records were used to justify deposits up to $100 million at the outset.

Neither was there an analysis made of the financial situation over the past 3 years, saying in error that the Bank of Peru had data up to 1981. This was not so. It was understood that it was necessary to evaluate BCCI holdings in order to issue a letter.

In the second place, it was omitted to talk about the background of BCCI holding company and its principal branches because these were not corresponding banks of the Central Bank of Peru, and there was nothing about them in the files of the bank, whereas there was qualitative and quantitative information about these banks when they came to try to open accounts in Peru in February 1985.

There is a report which is the Institution of Banking Analysis Limited of London which said that BCCI already in 1985 was an aggressive, innovative bank which on a number of occasions had bothered the supervisory authorities such as the Bank of England in 1985 from the legal point of view. It was considered to be in a ranking four out of five. In other words, it was ranked very low, though the management——

Senator KERRY. Whose ranking was that?

Mr. OLIVERA. The General Office of the Controller of Peru. The General Office of the Controller of Peru. This information is in report 008—1988. Of the year 1988.

Pedro Cateriano has asked to say something.

Mr. CATERIANO. The General Office of the Controller of Peru under our constitution is a body which is autonomous.

Senator KERRY. I just wanted to know who had made that particular judgment. Please continue.

Mr. OLIVERA. Yes, sir. The report of the Office of Controller continues saying that though the Office of International Operations says it did not have this information at its disposal, it knew that it existed and it could have gotten it.

In any case, the administration or the management of the bank proposed that this corresponding relationship be set up and refrained from telling the board about this information at that time.

In the third place, the Office of the Controller says that evidence—documentary evidence does not exist before the approval of the corresponding relationship that other concrete proposals for lines of credit were or were not negotiated to decide which would be the best, using the criteria of security and minimum reciprocity. It is believed that BCCI's proposal was the only one that existed and was adopted in conditions that are very far from minimum reciprocity.

Senator KERRY. Are you saying you believe it was the only proposal or might there have been others?

Mr. OLIVERA. No, Mr. Chairman. This is what the officers were saying who were arguing to justify, we think, precisely that what should have been done was that other proposals should have been sought, especially because we already had relations with the Bank of Tokyo, the Swiss Bank, the Bank of the Argentine Nation. There were a lot of banks in Panama with which relationships already existed with Peru.

Senator KERRY. Excuse me for interrupting you, but I just want to understand. You are saying that you have found as a matter of fact that no other proposal was solicited. Is that accurate?

Mr. OLIVERA. This is what we have investigated in our investigating committee.

Senator KERRY. What is your conclusion? Only one proposal?

Mr. OLIVERA. Sir, the conclusion that we are supporting here, and that is why I am giving you this documented explanation, is that there was here in the decision to place Peru's international reserves in BCCI a powerful force at work which caused decisions to be taken very rapidly. A 3-page report, only 3 pages on BCCI Holding Co. in Luxembourg, was what made the decision to be taken to place huge amounts of Peru's reserves in Panama.

I was reading the conclusion about reciprocity that—the reciprocity that Peru got. The Office of the Controller said reciprocity, that the Reserve Bank of Peru got with BCCI, was always greater than what it got; $250 million in deposits versus about $85 million in lines of credit. This is much greater than the differential with other banks. No evidence has been found for any reason for this significant concentration of resources in this one bank.

Senator KERRY. The gentleman from the Reserve asserted that no deposits were lost, that nothing was lost to the people of Peru. Is that accurate? That in effect all the deposits that were made were then withdrawn, so there was no loss, ultimately?

Mr. OLIVERA. The losses can be quantified in a number of different ways. First of all, using the concept of reciprocity, Peru needed lines of credit, and it placed its international reserves without getting lines of credit in equal proportion.

Second, the officer of the Central Bank forgot to say that in May 1986 and in June 1986 when the accounts were opened in BCCI, $50 million were held in a checking account that does not earn any interest at all. And this is concrete damage.

Third, there were deposits made above the limits authorized by the Central Bank of Reserve allowing BCCI to earn a profit. And we have to say to reach conclusions about why we feel that this conduct was irregular and suspicious and even criminal, as District Attorney Morgenthau alleges, is that there were very concrete observations made in 1987 regard the BCCI situation in the world, which have been mentioned here. There are the reports which already recommended withdrawal of deposits in July 1987. These were reports from London which were taken up by the Central Bank's relevant department.

Senator KERRY. When did those withdrawals take place?

Mr. OLIVERA. But despite that, substantial amounts were maintained, at least until December 1987 and January 1988. Coincidentally, that is when Panama entered into a crisis because of the denunciations or accusations against Manuel Noriega.

Ms. FLORES. This is a very important point. The information regarding the bad situation of BCCI around July 1987, although arguing that some credit should be paid, funds were not returned. They began to return them, but they did not finish returning them up to December 1988. That is something that for us sounds really curious. Although there were very clear reports saying that there was no reciprocity and that given argument in 1986 that we wanted to

protect funds, that was the main argument—we are trying to protect funds, we are trying not to be withdrawn. Nevertheless, knowing that we were in a risk situation, even more risky than the risk of it appears, we maintained ourselves up to December 1988.

Senator KERRY. Have you discovered anything with respect to the bank and its dealings with respect to officials who were responsible? Have you discovered anything concrete as to why that money was not withdrawn more rapidly? Do you have any answer to that?

Mr. OLIVERA. That was just what I was getting to, Mr. Chairman. We began this investigation because within our job, which is to examine investigations and financial operations having to do with President Garcia's state, in 1987 there was published in a magazine, Oiga, the fact that the President of Peru had an account in BCCI for $450 million. That was where the connection came with the work of our committee.

After having had meetings with District Attorney Morgenthau in May and then again in June on the part of members of the committee, we discovered that all of this irregular and suspicious behavior and these transactions vis-a-vis our reserves and BCCI had a cause, and the cause was bribery. It was a payment of commissions, illicit commissions to officers of the Central Bank and to other persons which are still to be identified, which remains to be identified.

We have seen and we have—the documents exist in New York, as stated by District Attorney Morgenthau. In the complaint he filed before the corresponding court, he says the following. And I hope that Ms. Flores will read this out in English.

Ms. FLORES. I do know it.

Senator KERRY. Thank you.

Ms. FLORES. It is the third point of the indictment saying that defendants authorized, and caused to be authorized, the payments of bribes and kickbacks to agents of other banking and financial institutions. By virtue of that practice, defendants attempted to avoid and did avoid scrutiny by other banking and financial institutions. In 1986 and 1987 to obtain deposits and a banking relationship with the Central Reserve Bank of Peru, Defendants Abedi and Naqvi authorized and directed employees of the BCCI-BCC group to open a bank account in a Swiss bank in Panama to transfer bribes and kickbacks in the amount of a percentage of the deposits maintained by the Central Reserve Bank of Peru to two senior officers of that bank. The total of such payments was approximately $3 million.

But you were also speaking of the 1987 documents, or possibilities. Yes, up to now we have received some documents showing us that there were very close relationships, not precisely from officers of the bank but from people outside the bank in a very high level.

Senator KERRY. What we would like to do is receive those documents into the record, if we may, because they certainly go to the question of a pattern of behavior. But again, I do not want to turn this into a trial court or something or into an accusatory panel. So I want to do that within the record, and we will decide how to treat those in the terms of the record.

But you have established both through your testimony and through the indictment that there is an allegation sufficient to bring an indictment with respect to the question of payoffs being

made in order to solicit the business. And you have described the inconsistencies in the decisionmaking that seem to support the notion that something happened. Yes.

Mr. OLIVERA. Yes. Definitely. And we think that the cause of this behavior and the decision to place Peru's international reserves in BCCI was corruption. And here we have a document of the Swiss Bank Corp. in Panama proving that BCCI oversees George Town Grand Cayman. From there, transfers were made to the Security Bank to the Swiss Bank in New York and transferred from there to an account in Panama of the Swiss Bank. These were the bribes for these officers. We do not know who handled these accounts. We know that the accounts were opened by Leonel Figueroa and Hector Neyra, the president and the general manager at the time, according to the counts filed by Morgenthau.

But there are other people under the Selva Negra and Terra Firma codes, and this required some clarification because we are convinced that there are other authorities higher up who intervened, as I am about to explain. I think it is important to say that in the indictment by the grand jury, two people are specified, Abedi and Naqvi, who ordered these transfers. This implies a very high level relationship in BCCI, not even at the officer level, who we have said participated in the transactions with BCCI.

INTERPRETER. Deputy Cateriano has also asked to speak.

Mr. CATERIANO. Mr. Chairman, it is also important to underscore that the usual practice of the Peruvian Central Bank in making this kind of a transaction is to have it done by the officials and technicians. Now, in this case, Panama, the general manager and the president of the Central Bank of Peru went to Peru themselves. This is very unusual and this was something that the Peruvian Central Bank did not do in carrying out this kind of operation normally.

Because in Peru the members of the board of directors are political. They are named by political people. The President of the Republic, in the case of the President and the members of the board, including the—there are four named by the President and three named by the Senate. That is why the function they carry out is not really technical. It is basically political. So traditionally, in the Central Bank, technicians, experts, carry out this sort of operation or transaction.

Mr. OLIVERA. I would like to continue, if I may. The contracts were signed with the Central Bank by A.M. Bilgrami, Cristian Nassim, J.M. Hrizui, and Akthar Kureshi.

We have discovered in our investigation and in our committee, the entry into the country of two persons involved in this BCCI scandal and who have been convicted for drug money laundering in a Tampa court. This is a document dated 1991, which I will give the committee in a spirit of mutual cooperation.

In this document that I am going to give you it is proven that this Pakistani national, Akbar Bilgrami Avida, entered Peru from Panama on December 18, 1986. A great coincidence here. That same date, General Manuel Antonio Noriega traveled to Peru, too. And why did he go to Peru? To be decorated by President Alan Garcia with the highest decoration offered by the Army.

Here is the proof of that. The relationship with General Noriega included unrecorded visits, as the Kerry committee heard from Mr. Blandon, who was the consul general in New York of Panama and who said that there was a disappearance in his official visit for 6 hours.

We also see here—we have also recorded another entry into Peru of another person who has also been convicted in Tampa, Amjad Awan. This is a person who had a great deal to do with the management of the personal accounts of corrupt people, such as being the personal banker of General Noriega. He entered Peru January 18, 1988, and stayed until there was a crisis in Panama and then this person, Amjad Awan, according to some information which has reached the commission, may be the personal banker of our own former President, President Alan Garcia.

Senator KERRY. I really do not want comments "according to somebody," "maybe." These are the allegations that I am really not interested in and the committee does not want. And I want to caution you against that. I want to know about BCCI specifically, but I do not want to know about somebody else's rumor or allegation at this point.

It is not going to be relevant to what the committee is trying to decide. I think we have really almost established—the critical component here, the critical component—is the pattern of visits by people and people that they met with or talked to. The degree that normal procedures were not followed. The degree to which the bank specifically undertook to meet with people in ways that were irregular and so forth. I think it is a question of influence and movement but not allegations by people outside.

Mr. OLIVERA. Mr. Chairman, I am referring to concrete facts. We have reports stating these things. I understand what you meant when you said what you just said. I understand very well. But this has a connection and the allusions are relevant.

I will reserve referring to the reports of very highly reputable investigators, private detectives such as Crowell & Associates who investigated Saddam Hussein, Duvalier, Marcos. I will reserve that for now and I will talk about the LARC report, because I do not want anybody to interpret what I am saying as being off the subject. But I am going to give you grounds, with documents to show how there is a connection—in connection with the decision to place our reserves in BCCI.

Did you want to say something, Senator Kerry?

Senator KERRY. I want specifically to see the connection with BCCI and the decision, very much. But let me just say, we have been going on for almost an hour now for a short opening statement, and we need—although I have interrupted it a number of times, we are going to need to try to tie this up.

What I need—and I think you have been doing it. Believe me, I think it has been very helpful that you showed deviation from procedure, you showed a pattern. What I want to understand is, were there any specific meetings that you are aware of and so forth.

Thank you.

Ms. FLORES. The main thing that you are asking, and I think you are right on that, is that if there was a personal relationship which was not relations just with the formal requests which are useful in

this case, which are common in this cases. And we do think there were. In 1986, Mr. Morgenthau has established, the former President Alan Garcia was consulted. That was the first fact which has been demonstrated.

Senator KERRY. Consulted by whom?

Ms. FLORES. He did not tell us exactly who he was. But there are some other facts which I think would help. Mr. Bilgrami was in Peru in 1986. What he said is that representatives of BCCI spoke with him, met him, and a decision was made at that level. We have that record.

Senator KERRY. Do you know the name of R. Alberto Calvo?

Ms. FLORES. No, I do not, but Mr. Cateriano could explain to you exactly who he was.

Mr. OLIVERA. Mr. Chairman, that is just what we are getting to, if you will allow me. I have a document here which we have obtained from the office of BCCI in Miami, FL, dated February 10, 1987. This is a document to Mr. Shafi and its says the following: Mr. Oscar Riizo Patron called from Lima to confirm that the President of Peru at any moment during the course of next week, February 16 to 20, can receive you. Because of the floods and other situations, President Garcia is traveling in the interior of Peru. Mr. Riizo Patron suggests to put 2 days on your schedule for this visit so as to give time for this meeting.

We will give you this document too.

Mr. Shafi——

Senator KERRY. Let me interrupt you, if I may. Let me just establish this document. This is a February 10 memo to Mr. Shafi from whom? Do you know?

Ms. FLORES. No.

Mr. OLIVERA. It is signed by someone called Cecile.

Senator KERRY. It is from the BCCI Bank, Latin American and Caribbean region, based in Miami, FL. Correct?

Mr. CATERIANO. Yes.

Senator KERRY. That document will be placed in the record.

[The information referred to follows:]

Feb. 10/87 4:15 p.m.

U

SEN 000504

Mr. Shafi,

Mr. Oscar Rizo Patron just called from Lima, Peru to confirm that the President of Peru can meet you any time and day during next week, Feb-16-20. Because of floods and other situations President Garcia is travelling inside the country.

Mr. Rizo Patron suggested to schedule at least 2 days of your visit so that there will be some flexibility for the meeting.

Mr. Rizo Patron requested to please advise him today or tomorrow your date of arrival and time you would like to meet the President next week.

Cecile.

BCC -- Latin American and Caribbean Region

(Miami, Florida)

SEN 000467

1) Deposits on 17/08/87

- Approximately $265 millions.
- Of this amount, $248,334,000 are in term deposits. The difference in operational accounts.
- The rentability is according to the market levels.
- The deposits are not subject to any conditions, nevertheless, if deposits are reduced below the line of credit (at this moment, $110 millions) the line of credit would be reduced to the limits of the placements.
- Eventually the rentability of the deposits could be increased. But some worries persist about the quality and soundness of BCCI.

2) The first line of credit for (US60 millions) was offered at a rate of Prime plus 1% in april/86, but it was negotiated in May 1986 at a higher rate (Prime plus 1.25%). This rate has been kept up to now and maybe it could be reduced.
Through telex of 17/8/87 it has been asked to increase the line of credit for, at least, $30 millions (eventually $50 additional millions).

- The Central Bank would be more receptive if the existing credit facility is increased substantially, maybe duplicating it in order to keep a balance with the level of deposits.

Lima, August 18, 1987

C 0002017

Mr. OLIVERA. What I mean is that in February of——

Senator KERRY. I need to interrupt you. We get 15 minutes to vote, and I have a few minutes now to get over to the floor and vote.

I need to ask you to try to confer to see if you can organize maybe in the next 15 minutes or so because I do need to get to the next panelist and to Argentina, and I want to try to keep it as factually tight as we can.

We will stand in recess for the next few minutes.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order.

Let me just explain to everybody that regrettably we are running tighter than we want to be. I have got to get to the Banking Committee markup before too long, so we need to be somewhat in summary, and some of the documents can be placed in the record. We will release some of the documents that explain some of what is going on, so if you summarize and we put the documents in, I think we are going to have the record that we need in terms of this issue.

Mr. OLIVERA. May I continue?

Senator KERRY. Yes.

Mr. OLIVERA. Thank you very much. I was just talking about the February 10, 1987, document coordinating a trip of Mr. Shafi to Peru to have a meeting with President Garcia. This was not to talk about the floods, quite obviously, floods that were going on in Peru at the time. I must say that in February 1987 the deposits in Peru and BCCI went up to $261 million, in excess of $61 million over the limit. This was the maximum excess over the limit throughout the whole period.

Here I have another document talking about Alberto Calvo. This is a document from Alberto Calvo to Mr. Shafi of BCCI, the Latin-American Caribbean Office, regional office, July 21. When the reports were received—negative reports about BCCI, Panama—meaning that the Reserve Bank was considering withdrawing its deposits, here I have this document which talks about a conversation with Alberto Calvo, who is not a BCR or BCCI or a Peruvian official.

This is a conversation with Daniel Carbonetto, who is an adviser of the President of the Republic, talking about how it's possible that steps are being taken to have a new conversation with President Garcia to see what can happen or what can be done about Peru's deposits. We will give you this document so it can be on the record.

Senator KERRY. I have the document. Tell me, who is Alberto Calvo?

Mr. OLIVERA. Mr. Cateriano can tell you.

Mr. CATERIANO. We have investigated who Mr. Calvo is, and we received the information that this is a banker managing Latin American relations for BCCI. He is an Argentine national. Mr. Alberto Calvo had relations before he was in BCCI in the Inter-American Bank, where he had some relations with Peruvian officers also working in the Inter-American Bank.

Senator KERRY. This memo that I am going to put in the record that follows the previous memo of February 10, this memo talks about further meetings and says that they agree to meet with the

president of the Central Bank 1 week after he takes office and after that they will visit with the President of the Republic.

So this is BCCI talking about top-level meetings between the president of the Central Bank and the President of the Republic. Is that correct?

OK, let me try to speed this along a little bit. There is a subsequent July 21, 1987, memo which is also from Mr. Alberto Calvo, also to Mr. Shafi. No, I have the wrong one here. Excuse me. There is an August 25 memo from Mr. Alberto Calvo to Mr. Shafi, and that memo talks about the relation with the Central Bank of Peru and——

Mr. OLIVERA. And a meeting with a friend.

Senator KERRY. Correct, and a meeting with a friend, and it talks about the Central Bank continuing its present operational relationship with BCCI if the line of credit could be increased, is that correct? Was the line of credit at that time increased?

Mr. OLIVERA. There was a statement that the line of credit would be increased.

Senator KERRY. This memo will also be made a part of the record.

[The information referred to follows:]

SEN 000557

LATIN AMERICA & CARIBBEAN REGIONAL OFFICE
1200 BRICKELL AVENUE 19th FLOOR MIAMI FLORIDA 33131 3288 U.S.A.

DATE July 11, 1987 - MKT/3647

FROM R. Alberto Calvo TO Mr. S.M. Ghafi

SUBJECT Conversation with Mr. Daniel Carbonetto

On saturday July 11, 1987, between 8:00 and 10:00 a.m. I had a working breakfast at the Ceaser Hotel, in Lima, with Mr. Daniel Carbonetto, Economic Advisor of the President of Peru, whom the public opinion considers the most influential person in the decision-making process regarding economic policies.

The purpose of the meeting was to exchange ideas about the best ways and means in which the Peruvian government could maximize the bargaining capacity of its gross reserves in order to get access to new loans or fresh lines of credit. In the course of the conversation Mr. Carbonetto expressed the worries of the President of the Republic about Panama's political situation, because of the placements that the government has in that country.

Mr. Carbonetto also told me that the presidency of the Central Bank has been offered to Mr. Javier Tantaleán, Minister of Planning, who has not accepted; but it is probable that the President Alan Garcia will insist.

Mr. Carbonetto asked me to go with him to visit the President Mr. Alan Garcia, and to brief him about our conversation. I politely refused with the excuse that I was leaving for Chile.

In reality I prefer to meet with the President after knowing what will be the policy of the Central Bank regarding the placement of it's reserves and after having a chance of receiving your instructions on this matter.

We agree to meet with the President of the Central Bank one week after he takes office and after that we will visit the President of the Republic.

Sincerely yours,

R. Alberto Calvo

Enclosure: A paragraph of an article published in the weekly magazine "Oiga", dated July 6, 1987/page 16.

BANK OF CREDIT & COMMERCE L.A.R. 15 FLOOR

JUL [illegible]

RECEIVED

cc: Mr. Bande Hasan

C 0002134

SEN 000466

LATIN AMERICA & CARIBBEAN REGIONAL OFFICE
1200 BRICKELL AVENUE 16th FLOOR MIAMI FLORIDA 33131-3266 U S A

DATE August 25, 1987 MKT/4158

FROM R. Alberto Calvo TO S.M. Shafi

SUBJECT Relation with the Central Bank of Peru CONFIDENTIAL

Attached please find a verbatim translation of the confidential document that our friend from Peru showed to you yesterday.

From the conversation I had with him at dinner, I came to the conclusion that the Central Bank would be willing to continue its present operational relation with BCC if the line of credit could be increased.

It would be important to counterbalance the unfavorable reports that the Central Bank has received from BCC.

Best regards,

R. Alberto Calvo
/eb

R. Alberto Calvo

November 27, 1987

Mr. Amer Lodhi
Chairman & Chief Executive
InterRedec Group of Companies
P.O. Box 670
Richmond Hill, GA. 31324

Following our conversation about Ms. Michelle Lamarche, I have made the following contacts:

1. Peru

At the Banco Central de Reservas del Perú, I talked to the Manager of the International Division, Mrs. Ana María de Reategui (Tel. 27-4810 and 27-6250) who told me that the Peruvian Government is interested in discussing that type of arrangements. For this kind of transactions the Banco Central de Reservas del Perú operates through the Instituto de Comercio Exterior (I.C.E.), where the Central Bank has a Delegate. I contacted the office of the General Manager, Mr. Eduardo Morales (Tel. 62-5742) but he has resigned effective November 30th. For that reason, I contacted Dr. Dora Valdivia (Tel. 62-5673) who is the Secretary of the Board and very knowledgeable about counter trade operations. The Instituto de Comercio Exterior decides upon the products that could be subject of the counter trade, and the Dirección General de Crédito Público of the Ministerio de Economía, decides about all the aspects of the utilization of the public papers in the transaction. In the Dirección General de Crédito Público, I got in touch with the Director Ing. Guillermo Rucinán (Tel. 27-0276) and with the Deputy Director Mr. Eduardo Domanac (Tel. 27-0276). Mr. Domanac told me that they are very interested in listening to the Lazard Freres Proposal.

The Instituto de Comercio Exterior, the Ministerio de Economía and the Banco Central de Reservas del Perú, would be able to receive Ms. Lamarche on/about December 15th. The person who would coordinate the Meetings is Mr. Enrique Santa Gadea, Assistant to Mrs. Valdivia at the Instituto de Comercio Exterior (Tel. 62-5673).

2. Colombia:

As you know, Colombia does not have any arrangement for Debt Equity Swap and, on the other hand, the public documents of external debt have the lowest discount rate in Latin America, but the Government is interested in discussing the possibilities of counter trade operations. In Colombia, I contacted Dr. Rodrigo Llorente (Tel. 285-2539; Tlx. 43326 CAMC-CO) who as a former representative of the Inter-American Development Bank in Paris, has close contacts with some executives of Lazard Freres, (Mr. Christian Valenci). Dr. Llorente told me that he could organize and coordinate the meetings of Ms. Lamarche with all interested parties (Banco de la República, Federación Nacional de Cafeteros, etc.). He thinks that the meetings would take no more than 2 working days and that the ideal dates would be immediately before the 15th. of December.

Suggestions: I suggest that Ms. Lamarche considers the possibility traveling first to Colombia around December 10th. and then proceed to Perú. She can contact directly Dr. Rodrigo Lorente in Bogotá and Mr. Enrique Santa Gadea in Lima.
As you know, I will be travelling on those days but I will be very glad to assit Ms. Lamarche as much as possible in this endeavor.

Best regards,

Senator KERRY. Then there is—is there any other memorandum or letter or document pertaining to BCCI meetings with respect to these transactions?

Mr. OLIVERA. No, not for now, but what we have to say is that the Reserve Bank, being autonomous in nature, is made up of four representatives of the executive branch named by the President and three members named by the Senate. During Garcia's Presidency his party had a majority, named as President a person who had been the Secretary of the Presidency, so it has been proven that there is no reason for Alan Garcia to have been in any of this.

I would like to say very briefly what happened with the Mirage. This is a case which really deserves your attention if you will allow me.

Senator KERRY. We need to do it very quickly.

Mr. OLIVERA. In August 1986, Peru decided it would not make profits, substantial profits on the sale of the 14 Mirages. This was a decision that the Peruvian Government made to get rid of these Mirages because they could not—Peru could not afford to pay any more but it could resell these planes to another country.

This was in the sales contract with Marcel Dassault that appeared in three different paragraphs. But Peru did not do this. According to statements made by the representative of the Government, the statements made in the committee I preside, these sales were not made to third countries because this was not authorized by President Alan Garcia.

The damage to the country and the profit to third parties resides in the fact that the market price of these 14 Mirages, the price which was paid for each plane at that time, was $37 million as stipulated in the statement of the Peruvian negotiator, Hector Delgado Parker. What Peru had to pay to Marcel Dassault, the manufacturer for each plane, because these planes were contracted for in 1982 to be manufactured later, were $12 million. That is to say, there was a difference of $25 million per aircraft.

Peru, however, did not make this transfer to third countries, for which all it needed to do was get the approval of the French Government. We have discovered, however, by Mr. Morgenthau's work, that this operation ended up as a resale.

BCCI ended up being the resale's agent and the London office of BCCI approved this sale, and according to what we've heard there was a falsification of documents to hide the country which was the final destination of these aircraft. We have received information that this plane was Iraq, was alleged to be Iraq during the period of Saddam Hussein. This true customer was being hidden because arms traffickers—international arms traffickers—were involved in this, an officer Asa working in BCCI of London.

Senator KERRY. Is this something that is fully documented?

Mr. OLIVERA. The documents exist in Mr. Morgenthau's office. They are in investigation phase and that is why we are stating this here in the Kerry commission to ask for the cooperation of international authorities so that we can clarify this. Mr. Morgenthau's people think that there was $100 million gap, and we think it's between $150 million and $200 million.

Mr. CATERIANO. Sir, this requires an investigation, obviously. We have gotten a statement from Mr. Morgenthau for Peruvian televi-

sion. This was broadcast to our whole country, and there he affirms that this negotiation caused Peru to lose $100 million and BCCI was apparently linked to this. This is something we need to go into.

Senator KERRY. Let me just say there is absolutely no disagreement from me. It is something that needs to be gone into, but this is not the place where we are going to be able to resolve it, and what I am trying to establish here are really the questions without unfairly making any accusations, even though the accusations have already been made specifically by the indictment by Bob Morgenthau and by your commission.

There are certain things that are on the table and you cannot avoid those, and I agree with that. But again, I do not want to go through every detail of them because there is no way that this committee can sort that out.

What we are trying to do is show the degree to which BCCI and its method of operation and the personalities and people who were involved with it have in fact created a situation in your country and in other countries where now people are left picking up the pieces and trying to sort it out.

In addition to that, to show the way in which by high level operations and conversations and meetings it appears as though they have left many people wondering what happened to the procedures in countries. That is not true only of Peru, it is true in some 60 nations or so, and it is true very much right here in the United States, so we share that.

Now having said that; I would like to ask you one question, if I may, and that is, has your effort to get at this as an investigative body been hindered by the bank secrecy laws? Has that made it difficult to find out what has happened here?

Mr. OLIVERA. Definitely. We have to state that present legislation favors the criminal, unfortunately, and the action of justice meets many obstacles. The information and the controls which are necessary are not forthcoming in order to—and this allows crime to be committed through legally constituted financial institutions. I think the situation has to be corrected.

Senator KERRY. Let me ask Ms. Flores, would you tell me to what extent Peru is threatened by drug money laundering and drug trafficking, and what has been the impact in Peruvian life of this kind of corporate activity?

Ms. FLORES. Let me tell you with numbers something which is a movement of money regarding the drugs. Peru receives or moves around $2,000 million a year from money coming from drugs. That means that in all our foreign relationships and reestablishing credits and financial relationships with other countries, it is a very big problem to think that we could avoid the money we are taking from drugs. It is around $2,000 million a year of money moving through drugs.

Senator KERRY. When you say $2,000 million, I think we are probably losing something in the currency conversion, conceivably.

Mr. OLIVERA. It is $2 billion in English. Mr. Kerry, on this same subject I want to give you two examples.

Senator KERRY. I must be fair. I have a neighboring country of yours waiting in the back here, and I really want to ask you for the summary statement very briefly, if I can.

Mr. OLIVERA. Yes. I will conclude saying that on this subject in the Upper Huallaga Valley there were four planes which went to pick up money every week, and it was detected that one citizen who was just a peasant had changed $6 million in just 1 month, and finally we discovered he was connected to cocaine, and between 1985 and 1990 the number of acres went from 60,000 to 225,000 acres, and it's very difficult not to connect all of this thing to increased drug trafficking.

We need the cooperation of the authorities of the United States and the authorities of the rest of the world to achieve the goals of our investigation, that is, justice. We need to recognize the work done by Mr. Morgenthau. We want to be very clear about the shared feelings we have of cooperation with what you are doing.

We are getting cooperation from other bodies but not as much, so we would like to ask for cooperation from the Department of Justice, the Department of the Treasury, the Customs, and other offices in the Federal Reserve, for example, to awake their consciousness so that they will realize that this is a fight for justice—that this is a fight for justice and they cannot use bureaucratic procedures to deny cooperation in this fight for justice and our desire to defend the rule of law and which will allow us once and for all to defeat corruption and to get to those who are first and primary violators of human rights in Peru, which are the terrorists, so that there will be no quarter given them by our Government.

So I would like to thank you on behalf of my committee. I hope that we will continue this very full cooperation that we have had up to now. Thank you very much.

Senator KERRY. I want to thank you each of you for taking the time to be here, and let me say, as chairman of the Narcotics Committee we have sat here in this room and listened to our own Assistant Secretary of State for Narcotic Affairs talk to us about the problems in Peru.

I am personally very aware of the difficulties in the Huallaga Valley, the efforts and dangers that are going on there, and the great tensions in your society as a consequence of both the Sendero Luminoso as well as the whole problem of drug trafficking linked to those kind of efforts, and I simply say to you that banks that involve themselves in laundering that money are as much a part of the problem as anybody else who is involved in the entire line and chain of command.

So you have raised many questions. We have not answered a whole lot of them here today, and I think one has to say that, but the questions are very legitimate. They are very real, and they need to be addressed, and I think we will proceed here to continue to try to gather information and understand this, that it is very clear that BCCI launched one of those offensives that we have heard about in order to secure these funds and deal in Panama and present itself falsely, and I think that there is a great deal more of this story, though, yet to be told.

But I want to thank you very much. We appreciate it.

If I could ask the next panel quickly, because we really only have about 20 more minutes here to continue. Thank you very much.

Senator KERRY. I think, Mr. Castillo, it is my impression that there is not really a need for you to testify very much, because I

think we tried to steer clear of the gravamen any of the offenses. If you have something that you want to clarify in a couple of minutes, I would be delighted.

Raise your hand, raise your right hand, please. Do you promise to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DEL CASTILLO. I do.

Senator KERRY. Would you identify yourself, please, for the record?

STATEMENT OF JORGE DEL CASTILLO, MEMBER, PERUVIAN HOUSE OF DELEGATES

Mr. DEL CASTILLO. My name is Jorge Del Castillo. I am a deputy in Peru, too, representing the Aprista Party, and I am a member of the investigating committee in which the other people who preceded me are serving. I want to be very specific here and brief in honoring your request. Irresponsible accusations have been made.

Senator KERRY. There were no accusations made here that are not part of the indictment. And we are not going to try the indictment here, so if there is something that was said specifically here that is incorrect, then I want you to address that, but we are not going to go into whether or not the indictment is correct or incorrect.

Mr. DEL CASTILLO. No, I am not talking about Morgenthau's indictment. I am talking about the comments on the Mirage business, for instance. Let me start there. It seems that there is a confusion here with Deputy Olivera when he involves the contract of the Peruvian Mirages with BCCI. When the session began, you had not come in yet, but Senator Cranston read some documents connecting the Argentine operation of the Mirages with BCCI, not Peru.

Peru bought from Marcel Dassault, a State-owned enterprise of France, a total of 26 aircraft between 1982 and 1984 before Dr. Garcia was President. Fernando Belaunde-Thierrie was President at the time. When Dr. Alan Garcia became President, and I am going to give you a specific document on this.

Senator KERRY. The issue here on the Mirage is not really the record previously. The issue as I understood it was that BCCI facilitated a sale that was made to a Middle Eastern country. Now that is the issue. Is that true or not true?

Mr. DEL CASTILLO. That is not true. The Government of Peru under President Alan Garcia, the same day, July 20, 1985, as he took power, announced that since Peru was a poor country, it could not be spending money on weapons. And therefore, instead of buying 26 planes, he had given orders to reduce the order.

This was a restructuring of the contract, which was done directly between the Peruvian Government and the French Government. And I am going to give you the signed documents by the Foreign Ministers of Peru, Alan Wagner, and the French Foreign Minister as well, restructuring this contract.

Peru is not a country which is aggressive, nor one which encourages wars with other countries. Therefore, it would not resell planes.

Senator KERRY. But sir, the question is whether or not BCCI was part of the transaction for the sale of weapons. Were Mirages sold? Did Peru sell Mirages to another country?

Mr. DEL CASTILLO. Peru did not sell planes to other countries. It cut its contract back in a direct contract with the French Government, government-to-government, without any middlemen.

Senator KERRY. It is your testimony, then, that no planes were to be transferred from Peru to any other country?

Mr. DEL CASTILLO. In no way.

Senator KERRY. Let me move away from that. We are not here to get into, I am not going to be the decider of fact between this. You stated on the record that it did not happen; they have stated on the record that it did happen. And as I said, a lot of questions have been raised here.

The question I ask you is, with respect to BCCI, is there anything that you have heard with respect to BCCI that is factually incorrect or that you can help the committee to understand better?

Because the dispute with respect to President Garcia, as I said at the outset, is not for this committee to decide. I have tried to steer the people who testified a moment ago away from any accusations. I am not here to hear them. We know what is out in public. What I want to know is about BCCI. And so I am confident that in Peru this issue is going to be litigated, investigated, decided. It is not here that it should happen. And I have tried to acknowledge that there is a total other side to that.

There is no effort here to say that President Garcia did know, did not know, did something, or did not do something. And I accept your statement on its face. There is a controversy. And we cannot resolve it, we are not here to resolve it.

So if you could help me with respect to BCCI, is there a fact that you can show me, by document or otherwise, that is incorrect in our current understanding of BCCI's relationship with Peru?

Mr. DEL CASTILLO. Yes, I will discuss that, and I will try not to get off the subject. I am going to give you the documents to conclude the prior subject on the government-to-government contract.

Senator KERRY. I will make those a part of the record.

[The information referred to follows:]

Deputy Clerk

BANK OF CREDIT AND COMMERCE INTERNATIONAL
(OVERSEAS) LIMITED
APARTADO 6-4607 ESTAFETA EL DORADO PANAMA REPUBLIC OF PANAMA

3 de mayo de 1991

Doctor
Jorge del Castillo Gálvez
E.S.M.

Estimado doctor del Castillo Gálvez:

Nos permitimos responder a las preguntas contenidas en su nota del 2 de mayo de 1991 de la siguiente forma:

1. En esta Institución Bancaria no existe ninguna cuenta especial No.000144000 a nombre de María del Pilar Nores Bodereau de García o María de García ni del señor Alan Gabriel Ludwig García Pérez ni de ninguna otra persona.

2. Por no existir dicha cuenta No.000144000 en esta Institución Bancaria no se han efectuado depósitos ni transferencias de ningún tipo en relación con la misma.

3. En esta Institución Bancaria no existe ni ha existido cuenta o depósito a nombre de María del Pilar Nores Bodereau de García, de María de García, de María Nores, de María N. Bodereau ni a nombre del señor Alan Gabriel Ludwig García Pérez.

Atentamente,

A.C.

Gerente

Oficial

PHONES. 69 33 22 TELEX INTEL 1989 11 3480382 TAT 2127 CABLES BANCRECOM
Incorporated in Grand Cayman A subsidiary of BCCI Holdings (Luxembourg) S.A.

Banco Santander

José M. Maceda
Subdirector General Adjunto

Yo, José Manuel Maceda Fernández, Subdirector General Adjunto de Banco de Santander, S.A. de C. y Secretario General de su División Internacional, a solicitud de Dª María del Pilar Nores Bodereau

C E R T I F I C O

Que no ha existido ni existe [illegible] a nombre de la solicitante, ni de María Nores, ni de A.V. Alejandro Nores, y que, por tanto, no se ha realizado - ni podido realizar - transferencia alguna a su favor.

Se expide esta certificación en Madrid el 22 de Mayo de 1991.

Asesoría Jurídica
División Internacional

GENERALE

Service Communication

Bruxelles, le 17 mai 1991
L/FLo/cv/19-91

Docteur A. CARRANZA GUEVARA
c/o Jean DOERNER
rue Aldringen 13

L - 1118 LUXEMBOURG

Monsieur,

En réponse à votre lettre du 16 mai, je vous confirme que la Société Générale de Belgique S.A. en tant que société à portefeuille n'exerce pas d'activité bancaire et ne peut recevoir des dépôts de particuliers.

Veuillez agréer, Monsieur, l'expression de mes sentiments distingués.

Filip Lowette

Filip Lowette
Responsable Communication Groupe

Société Générale de Belgique
Rue Royale 30 B-1000 Brussels Belgium
Tel 32 (2) 507 02 11

Générale de Banque

Direction

Bruxelles, le 17 mai 1991

Monsieur,

Nous nous référons à la visite que vous nous avez rendue le 14 mai 1991 et au cours de laquelle vous nous avez commenté les circonstances dans lesquelles Mr. Alan Gabriel Ludwig GARCIA, ex-président de la République du Pérou, fait l'objet d'une enquête parlementaire dans votre pays.

En préparation de cette visite, vous nous avez fait parvenir une version photocopiée (téléfax) d'un rapport d'enquête daté du 28 février 1991, établi par LARC INVESTIGATIVE SERVICES et adressé à Monsieur Fernando OLIVERA, Diputado Presidente, Fronto Independiente Moralizador, Jose Granda 105, Depto. 14, SAN ISIDRO, LIMA, PEROU.

L'examen du document en question, en particulier des raisons sociales des institutions financières mentionnées, nous amène à vous confirmer que notre banque n'est en aucune façon visée par ce rapport d'enquête pour le motif que nous n'y sommes pas cités. En effet, la raison sociale de notre banque en Belgique, tant à l'époque des faits rapportés qu'actuellement, est "GENERALE DE BANQUE" (en français) et "GENERALE BANK" (en néerlandais).

Veuillez agréer, Monsieur, l'assurance de notre considération ~~distinguée~~.

Fr. J. GROSJEAN
Compliance Officer

Vu par Nous, Notaire Frank DEBUYT, à Molenbeek-Saint-Jean, pour légalisation/ certification de la signature de Monsieur Jean-François GROSJEAN apposée sur le présent document
Molenbeek-Saint-Jean, le 17 mai 1991

W. SLACHMUYLDER
Auditeur Général

Vu par Nous, Notaire Frank DEBUYT, à Molenbeek-Saint-Jean, pour légalisation/ certification de la signature de Monsieur W. SLACHMUYLDER apposée sur le présent document
Molenbeek-Saint-Jean, le 17 mai 1991

NOTAIRE - FRANK DEBUYT - Molenbeek-Saint-Jean

Monsieur Alfredo CARRANZA
Elias Aguirre 126 Of. 305
MIRAFLORES - PEROU

POUR COPIE CONFORME



DIRECTION DES AFFAIRES INTERNATIONALES
ZONE EUROPE CENTRALE ET ORIENTALE
AMÉRIQUE LATINE, PROCHE ET MOYEN-ORIENT

Paris, le 11 juillet 1991

Monsieur Alan GARCIA
c/o HOTEL DE LUTECE
65, rue de St Louis en l'Ile
75004 PARIS

Monsieur,

Comme suite à votre demande, nous vous confirmons que la SOCIETE GENERALE n'a pas de succursale ni à BRUXELLES ni dans aucune autre ville de BELGIQUE.

Nous vous prions d'agréer, Monsieur, nos salutations distinguées.

J.E. PERRE

P.05

Monsieur Alan Gabriel GARCIA PEREZ
Madame Maria del Pilar NORES DE GARCIA

DIRECTION COMMERCIALE

Comme suite à votre demande par lettre du 10 juillet 1991, nous déclarons par la présente, que nous sommes la SOCIETE GENERALE ALSACIENNE DE BANQUE, en abrégé la SOGENAL.

En conséquence, nous ne sommes pas concernés par le rapport fait en date du 28 février 1991 par Larc Investigative Services à Miami (Florida) 1515 NW, 7th Street, National Office Building suite 310, ce qui est d'ailleurs confirmé, sauf erreur ou omission de notre part, par les recherches que nous avons effectuées dans notre Etablissement.

La présente déclaration est faite sans reconnaissance préjudiciable de notre part.

Bruxelles, le 10 juillet 1991

A. QUOIX
Directeur

D. FRANSENS
AFF. JUR. & CONTENTIEUX

BANK OF CREDIT AND COMMERCE INTERNATIONAL
(OVERSEAS) LIMITED
ANNAUGHTON HOUSE PO BOX 1306 FORT STREET GEORGETOWN GRAND CAYMAN

MN/gcm/1214
May 22, 1991

Mr Jorge Del Castillo Galvez
Holder of Peru Passport # 005361
Congreso Nacional
Lima, Peru.

Dear Sir,

RE: A/C # 000:44000

With reference to your letter of May 22, 1991 we confirm that the subject account number quoted by you does not pertain to this office.

Thanking you,

Your's truly,

Manager

GREAT WESTERN BANK GW
A Federal Savings Bank

100 S.E. Second Street
Miami, Florida 33131-2199

May 23, 1991

Deborah S. Prutzman, Esq.
ARNOLD & PORTER
65 East 55th Street
New York, NY 10022-3219

Re: Alan Gabriel Garcia Perez, born in 1949; and
Maria Del Pilar Nores Bordereau De Garcia,
a/k/a Maria Del Garcia, Maria Nores, or
Maria N. Bordereau, also born in 1949.

Dear Ms. Prutzman:

This is to advise you that our Research Department searched Great Western Bank's account base, as well as CenTrust Bank's records, for any accounts corresponding to the above-referenced names. Those names were in turn matched to the birthdates you previously provided us. We were unable to locate any account matching that information.

If you should have any questions, please do not hesitate to contact me.

Very truly yours,

GREAT WESTERN BANK
Legal Department

Anabel I. Nemrow, Esquire
Associate Counsel

AIN:eb
cc: Dr. Jorge Del Castillo Galvez
by Hand Delivery

PATTON, BOGGS & BLOW
2550 M STREET, N.W.
WASHINGTON, D.C. 20037-1350
(202) 457-6000
TELECOPIER 457-6315
TRT TELEX 197780

[illegible]

[illegible]

[illegible]

May 24, 1991

[illegible]

(202) 457-6030

VIA TELECOPY (212-223-1939)

Deborah S. Prutzman, Esq.
Arnold & Porter
65 East 55th Street
New York, NY 10022

Dear Ms. Prutzman:

Our client BCCI has informed us that the nine-digit account number you referenced in your fax of May 6, 1991 (#000144000) does not comport with the standard numbering system BCCI uses for its accounts. Our client suggests that perhaps the Societe Generale in Brussels, Belgium might be able to further assist you. Please let me know if I can be of further assistance.

Sincerely,

Deborah M. Lodge

DML/mlc

cc: Jerome Levinson, Esq.

A6 THE WALL STREET JOURNAL TUESDAY, JULY 30, 1991

Private Eye, in Odd BCCI Tale, Tells Of Snooping on Ex-President of Peru

By MICHAEL ALLEN
And JOSE DE CORDOBA
Staff Reporters of THE WALL STREET JOURNAL

MIAMI—It was a slow day in the private-eye business when Rafael "Ralph" Garcia got the call. Peruvians. A pack of them with titles a mile long and a real itch to know more about the finances of some ex-president. Would he take the case?

Would he ever! "I'm saying to myself, 'I'm in the major leagues now!' " says Mr. Garcia, a former Drug Enforcement Administration agent who operates a detective service out of his house when he isn't parked behind his desk at the Miami jai-alai arena, where he's head of security. He figured he'd charge his new clients $50,000—twice what he normally makes in a whole year of sleuthing.



Rafael Garcia

And for awhile, it looked as if he was onto something big. Mr. Garcia produced a preliminary report suggesting that Alan Garcia, the charismatic former president of Peru and no kin to Ralph, looted millions of dollars through the now-notorious Bank of Credit & Commerce International. The Peruvian political scene was plunged into turmoil. There was even talk the ex-president might wind up in jail.

But now, Ralph Garcia wishes he'd stuck with divorce cases. Peruvian power brokers are finding holes in Mr. Garcia's dossier against the ex-president. The Peruvian media have hounded him and even suggested that he doesn't exist. The Florida State Department has lodged an administrative complaint charging, among other things, that he "conducted regulated activities in a negligent manner." Worst of all, he says, he isn't getting paid any longer.

"Fifty thousand dollars," he snorts, as the closed-circuit television in his office flickers with the latest round of jai alai, a betting sport played somewhat like racquetball. "I haven't gotten another $50."

Whatever the outcome of the travails of the two Garcias—some of it might be sorted out Thursday at a hearing by the U.S. Senate subcommittee on narcotics and terrorism—the story offers an unusual peek into the world of financial snooping. It also shows how hard it is to separate fact from fiction in the mushrooming scandal surrounding BCCI, the rogue banking operation shut down this month by regulators amid allegations of massive fraud.

Ralph Garcia, a burly 42-year-old whose size and good-natured bluster suggest a Cuban-American Jackie Gleason, has spent a career plying the fringes of the underworld. Hired by the Washington, D.C., police department in 1970, Mr. Garcia says he spent his first year "deep, deep undercover," infiltrating Cuban organized-crime circles.

Soon after, he joined the DEA, beginning a seven-year federal career that he concedes was a bit rocky. Though he received praise for his willingness to take on tough assignments and won the nickname "Machine-Gun Garcia" for spraying a drug dealer's deserted car with bullets, he also says he got into administrative squabbles over postings and other matters. Eventually, Mr. Garcia says he and his bosses reached a mutual agreement. "It was like, retire or we'll send you to Timbuktu," he recalls.

Mr. Garcia moved to Miami and opened a one-man private detective agency. Working with local criminal defense attorneys, he got involved in a few high-profile cases. He also got a job with the jai-alai arena. But he never really hit the big time.

Until he ran into Fernando Olivera. Mr. Olivera, a young Peruvian congressman who has made a career of fighting corruption, was looking for evidence that the former president, Alan Garcia, had looted the treasury. He obtained Ralph Garcia's name through a Miami tax attorney who had done some probate work for him. In a first meeting in a bayside condominium, Mr. Olivera produced a few leads. For example, the politician recalled seeing an interview of Julio Iglesias in which the Latin crooner mentioned that a former Peruvian president had bought property next to him in swank Indian Creek Isle here, says the detective.

And there was also the controversial relationship between the Peruvian Central Bank and BCCI during Mr. Garcia's presidency. In the mid-1980s, Peru deposited half the country's foreign-exchange reserves in BCCI's Panama operation, despite warnings from some Peruvian central bank officials that BCCI was in bad financial shape and paid low interest. Former President Garcia has defended the action, noting that he wanted to protect Peru's reserves from foreign creditors angered by his decision to suspend payments on the country's $22 billion foreign debt.

Bank Records Cited

The Miami real estate lead hasn't panned out. But the private detective scored big in peering into Alan Garcia's bank records—or so he thought.

Not only had Alan Garcia been introduced to BCCI by former Panamanian strongman Manuel Antonio Noriega, but he had used the bank to deposit $50 million between 1986 and 1989, detective Garcia said in his report to Mr. Olivera. Then, the money allegedly was moved to a string of accounts at other financial institutions in Europe and the U.S. The level of detail was astonishing. The report listed specific account numbers and names under which they were opened, many of them a variation of the Peruvian first lady's name, Maria del Pilar Nores Bodereau de Garcia.

Mr. Olivera trumpeted the findings in the Peruvian Chamber of Deputies in April, breathing new life into what had been a flagging investigation by his commission. Mr. Olivera became a national hero and Mr. Garcia's APRA party plunged into chaos.

But Alan Garcia's operatives quickly took the offensive, passionately denying that he had accounts abroad or had stolen any money. Jorge del Castillo, the former mayor of Lima, produced letters from several of the banks in the report denying that any such account could be found. In some cases, the institutions noted that they didn't even use the sort of account numbers mentioned in the detective's report.

Back in Miami, Ralph Garcia's fortunes plummeted. Peruvian journalists began appearing at an office address listed on Ralph Garcia's stationery. Because of a misprint, there wasn't such an office, a fact that was dutifully reported in Lima in articles suggesting that there wasn't a Ralph Garcia. When the reporters finally tracked him down, they laid siege to his house. The detective's teen-age son drove them off with water balloons.

Protest Filed With State

Harder to dismiss was the Florida State Department, which regulates detectives. Acting on a protest from Alan Garcia's representative, Mr. del Castillo, the department last month lodged an administrative complaint that Ralph Garcia operated a branch office without a proper license, that he failed to cooperate with a division investigator and that he "provided information to his client and represented the information to be factual when he knew such information had not been verified."

Mr. Garcia's attorney, Dennis G. Kainen, concedes that the first count might be true, strictly speaking, but vehemently denies the rest. He says Florida regulators moved much faster than they normally do—in this case, the complaint followed a one-month investigation—and hints at political manipulation. "You would have thought from the way these guys came in here like gang-busters that they were talking about 1,000 kilos of cocaine."

John Russi, director of the department's licensing division, denies that his men acted hastily. "When we get a complaint on someone, we investigate it [and] we try to handle it as quickly as possible," he says.

So how exactly did the disputed information wind up in Ralph Garcia's hands? "I wish like hell I knew," he shrugs. He

says he got it from a Fort Lauderdale company called Mercantile Credit Association Inc., widely used by private detectives and which, Mr. Garcia says, has given him accurate information in past cases. He also notes that he hadn't expected that Mr. Olivera would release the report so soon.

Mercantile Credit, which bills itself as providing the "world's most accurate, up-to-date, informative credit reports," won't identify the source of its information. Wallace Iroff, president, says Florida authorities instructed him not to comment, and besides, "when two elephants are fighting, you get out of their way."

But a person familiar with Mercantile's operations asserts that the alleged information about Alan Garcia was procured through an intermediary who, in turn, contacted a third person unknown to Mercantile. Mercantile charged its customer, in this case Ralph Garcia, $200 per bank account found in the U.S. and $650 for international accounts, according to the person.

Mr. Garcia is consoled by the support offered him by patrons at the jai-alai arena, as far as it goes. "I have to defend myself 24 hours a day," says Mr. Garcia, who has netted just $3,500 for his troubles. "I can deal with this, but what I can't deal with is that I haven't made any money."

State of Florida

Department of State

I, Jim Smith, Secretary of State of the State of Florida, do hereby certify that the attached letter from John M. Russi, Director of the Division of Licensing, to Mr. Jorge Del Castillo Galvez, is an accurate and correct statement of the status of the investigation currently being conducted on LARC Investigative Services, Rafael Nicasio Garcia, President, pursuant to Chapter 493, Florida Statutes.

Given under my hand and the Great Seal of the State of Florida, at Tallahassee, the Capital, this the 11th day of June 1991

Jim Smith
Secretary of State

CR2E022 (8-87)

FLORIDA DEPARTMENT OF STATE
Jim Smith
Secretary of State
DIVISION OF LICENSING
The Capitol, MS #4
Tallahassee, Florida 32399-0250
(904) 487-0482 FAX 488-2789

June 11, 1991

Mr. Jorge Del Castillo
Diputado Congreso Nacional
Lima, Peru

Dear Mr. Del Castillo:

As regards your complaint of May 16, 1991 regarding LARC Investigative Services of Miami, Florida, Rafael N. Garcia, President, and the investigation conducted by Mr. Garcia on Mr. Alan Gabriel Ludwig Garcia, you are respectfully advised that the investigation conducted by the Miami Regional Office, Florida Department of State has been forwarded to Tallahassee for review to determine investigative completeness and legal sufficiency.

An initial review of the investigation that has been conducted to date is deemed to be sufficient to determine that probable cause exists to proceed by Administrative Complaint against Mr. Garcia of LARC Investigations for various violations of Chapter 493, Florida Statutes, the chapter which regulates private investigators in the State of Florida. The totality of the administrative charges to be lodged against Mr. Garcia have not yet been determined. No Administrative Complaint has been prepared since it has not yet been determined whether or not the investigation is complete.

Upon final conclusion of the investigation, within two weeks a copy of the Administrative Complaint, the charging document in an administrative proceeding, will be provided to you.

If I may assist you further in this matter, please feel free to contact me at your convenience. Otherwise, I will provide copies of the investigative report and the Administrative Complaint as indicated.

Sincerely,

John M. Russi
Director

JR/bt

SunbeltSavingsFSB

May 21, 1991

Ms. Deborah Prutzman
Arnold and Porter
Park Avenue Tower
65 E. 55th Street
New York, New York 10022

Re: SL-8612, Sunbelt Federal Savings, FSB
Irving, Texas - In Conservatorship (4/26/91)
ALAN GARCIA PEREZ

Dear Ms. Prutzman:

I am sending this letter to you pursuant to our telephone conversation on Friday, May 10, 1991. I am an attorney in Sunbelt Federal Savings, FSB's Legal Division. On Tuesday, May 7, I received Mr. Jorge Del Castillo Galvez at Sunbelt Federal Savings. After reviewing a Power of Attorney executed by Alan Gabriel Garcia Perez and Maria Del Pilar Noras Bodereau de Garcia, and after confirming the authenticity of such document, I undertook a review of Sunbelt's records to determine if certain account relationships existed.

Specifically, I was requested to search Sunbelt's records for an account allegedly in the name of Alan Garcia Perez which was closed sometime prior to December of 1989. This account was allegedly originally established with Western Federal Savings and Loan Association prior to the formation of Sunbelt Savings Association and Sunbelt Federal Savings, FSB. A search of our records indicated that no such account, either open or closed, existed under any variation of Mr. Perez' name.

I was also specifically requested to determine whether or not there was an account in the name of M. Bodereau. Once again, I was presented with information that such an account did exist, including an account number, allegedly from Western Federal Savings and Loan Association. I have been unable to locate such account for Maria Bodereau. Further, review of the late May, June and early July 1988 wire transfer records revealed no information relating to a $2,000,000.00 wire transfer.

Therefore, a review of account records transferred to Sunbelt Savings and subsequently transferred to Sunbelt Federal Savings, FSB from Western, indicate no accounts under the names or variations thereof listed above. The account number as referenced is not a valid Western Savings account number and was no help in locating any documentation. Further, review of the wire transfer

records do not indicate the receipt in June of 1988 of an approximate $2,000,000.00 wire.

If you have any questions, please give me a call.

Sincerely,

Barry D. Johnson
Sunbelt Federal Savings, FSB

f:\users\roy\updata\bdj\3136.bdj

Sunbelt Savings, FSB

VIA FACSIMILE (212) 223-1258

May 29, 1991

Ms. Deborah Prutzman
Arnold and Porter
Park Avenue Tower
65 E. 55th Street
New York, New York 10022

Re: SL-8612, Sunbelt Federal Savings, FSB
Irving, Texas - In Conservatorship (4/26/91)
ALAN GARCIA PEREZ

Dear Ms. Prutzman:

I have previously given to you the results of an internal investigation performed at your request relating to certain deposit accounts in the former Western Savings Association of Texas and a wire transfer allegedly made in June of 1988 into Western Savings Association.

Sunbelt was investigating an approximate $3.3 million wire transfer in June of 1988, which did not go into any deposit accounts. We have subsequently determined that the approximate $3.3 million wire transfer received in June of 1988 is not involved as we can determine, with Mr. Garcia or his wife.

It would be my hope that this letter answers any questions which you have relating to this matter.

Sincerely,

Barry D. Johnson
Sunbelt Federal Savings, FSB

cc: Jorge Del Castillo Galvez
c/o Aida Ostolaza
(via fax: (817) 284-1989)

f:\users\ray\wpdata\bdj\2166.bdj

RTC
Resolution Trust Corporation

July 19, 1991

Ms. Lourdes Flores
Member of Commission
Guardia Civil 1150
San Isidro
Lima, Peru

Dear Congresswoman Flores:

Based on the information provided to the Resolution Trust Corporation (RTC) by you and other members of the Commission, we could not confirm the existence of transactions or account relationships with either Centrust Savings or Western savings (now Sunbelt Savings).

Of course, we would give consideration to making further inquiries should additional information become available.

Sincerely,

James R. Dudine
Assistant Director, Investigations

cc: C. J. Sullivan
Wm. Dudley
Wm. Roelle
T. Schulz
Mr. Jones

Mr. DEL CASTILLO. BCCI, Mr. Chairman, came to Peru in 1984. Probably it was a source of surprise in Peru, as in 60 other countries as well, how much good faith people had. As you know, it seems that when any bank wants to get into a country, it wants to get in touch and contact with important groups of people in the country.

And in March 1984, BCCI in Peru asked for authorization from the Superintendency of Banks and Insurance to set up a branch. So you will see the level of reliability that a bank, apparently a very solvent bank, seemed to have at that time.

BCCI, to ask for this authorization, asked for and got the legal advice of a very important law firm in Peru, and here in exhibit No. 1, that I am going to give you, I am going to give you a sealed copy dated March 14, 1984, from the Superintendency showing that BCCI asked for permission to set up a branch.

And it says that its legal domicile will be the law office of Sterling, Arias & Davis & Associates, which is a very well known law firm. Dr. Sterling, who is a person whom all of us respect and could not possibly be suspected of anything illegal, he is a member of Dr. Lunes-Flores' party, and is the President of the Peruvian Senate. He is beyond reproach. This is exhibit No. 1.

In 1984 the Superintendency, in a document in November, asked the Central Bank to process the approval. I am giving you a list of all of the Central Bank staff members from 1980–90.

Here there is a very interesting person who was the general manager of the Central Bank between 1980 and 1984, until October 1984. Remember that BCCI's request came in March, and he was there until October. They say in Lima, and this is a saying or speculation, I recognize, that this same person, the general manager, was the promoter of BCCI in Peru.

This person is called Brian Jensen Rullio. In 1984, Mr. Brian Jensen Rullio resigned from this post at the Central Bank, and he moved to Miami. And in Miami he was named manager of BCCI. So if anyone knows about the links of Peru with BCCI, it is Brian Jensen, because he had been general manager of the Central Bank, and because he was later a Miami manager of BCCI.

Brian Jensen, until yesterday, was representative in Peru, named by the Minister of the Economy, Carlos Bolona, as the representative of Peru to the World Bank. Yesterday, though, the President of Peru, Alberto Fujimori, dismissed him from this position when he learned of evidence that this person, Brian Jensen, was allegedly a link to BCCI. And he lives in Washington now, and I think it would be interesting for you to hear his testimony.

He was general manager, starting January 19, 1981, until October 1984, when BCCI already had 6—had been working 6 or 7 months. Or had been working for 6 or 7 months to try to set up its branch in Peru. The branch in Peru was approved by the director of the Central Bank on February 1, 1985. We are still talking about the prior administration before Dr. Garcia.

Senator KERRY. Can you get into the 1986 and 1987 stage, where the transaction began in terms of the credit line?

Mr. DEL CASTILLO. Yes, I just want to read two lines of the director's report of February 1985. This board of directors is made up of very serious people, I think all of them have impeccable reputa-

tions in the county, and I am sure that they were all surprised, as Dr. Sterling was, and as many other people who were on it in good faith must have been.

The report said, or the agreement said, that the Board, feeling that the opening of a foreign bank at this point shows confidence in our country, and taking into account that this is a bank which is presently one of the most important in the world, and nothing has been found against it, the Board has decided to act in favor of the request.

This same report includes an authorization of the Superintendency, and I am including the documents, the official documents which appeared in the press in Lima, establishing this branch. Later this branch was not actually set up, but all of the steps were taken by the public authorities of Peru so that it could have been set up.

On April 1, 1986, and I am sending the text of the board of directors' report, the decision was taken by the board of the Central Bank to establish a corresponding relationship and deposits, and I do not want to refer to more details because Mr. Llaque has explained all of this very clearly indeed. It was the Director of BCCI in July that said it was necessary to revise some factors or some areas.

Senator KERRY. I hate to interrupt you here, but as you know, I promised I would give you an opportunity to respond to the prior panel. I cannot go through another entire panel of testimony separately now.

Let me come to some key questions. It has been asserted by the investigative team as they have spoken that there are irregularities in the way that the line of credit was extended. And that there are significant questions in Peru.

And let us leave the President completely out of this. Let us assume that there is no President Garcia. Just the way BCCI worked, when suddenly the Government made a decision that it needed some credit, and went to Panama. Now, why did it go to Panama? Was there something about the way BCCI worked? Do you find that? Or do you think that BCCI is a terrific bank with no problems?

Mr. DEL CASTILLO. Mr. Chairman, I am going to refer to the Peruvian constitution, and I am going to leave you a copy of it. But there it says that the Central Bank is an autonomous body. It does not depend on the executive branch. This is very important.

Senator KERRY. I accept that. But answer my question. I mean, I take it that what you are saying is the BCCI relationship was bad, but that somebody else had something to do with that, and that not the President. Is that what you are saying to us?

Mr. DEL CASTILLO. The only officers who were responsible for the BCCI matter were the members of the Board, no one else.

Senator KERRY. The members of the Board of the Federal Reserve are responsible, correct, is that what you are saying?

Mr. DEL CASTILLO. Yes, sir.

Senator KERRY. Was BCCI a good bank to deal with or not? Yes or no?

Mr. DEL CASTILLO. I do not know this background. I have come with the purpose, as you know, of stopping—and you have not al-

lowed this to happen, fortunately, but stopping undue links to be drawn to be drawn here. I do not judge BCCI pro or con.

Senator KERRY. Fair enough.

Now, from your perspective, can you share with the committee a view of BCCI? If you do not have knowledge of that, then I will make part of the record any clarification you have of any comment to which you object. But I do not want to take the time now because of the gentleman from Argentina who is waiting, and I want to get some of that on the table because it is important as to Argentina's experience with BCCI.

Mr. DEL CASTILLO. Senator, it has been said here that Mr. Morgenthau allegedly made a link between President Garcia and BCCI regarding presumed bribes. And we have begun an investigation in Peru on this. But I have, and I am leaving you, an EFE cable, which was the only one that referred to a question of this sort. And this press release says—asks if President Alan Garcia was being investigated in Peru regarding his links with BCCI, and if this was connected to the bribes. Morgenthau said, no. I leave this with you because there is no evidence that Morgenthau said anything different from this.

Senator KERRY. Let me say to you, Mr. Castillo, that I respect that and the committee accepts what we have heard today completely neutrally, with respect to President Garcia. As far as we are concerned, that is outside of this committee at this time.

It is between the people of Peru and its own Government and own processes for determining that, and it is between Mr. Morgenthau and his indictment process, which is totally separate from here.

But at the moment we are really trying to get a picture of the questions that have been raised by this. The fact that there was a soft credit line, if you will, with an imbalance in the amount of credit for the amount of cost, the fact that it had to go to Panama and BCCI was so prepared to help the country find a way around the laws and went to Panama and had secret accounts and so forth, raises the very kinds of issues that we are trying to raise.

And while nothing is dispositive here of any of those issues, that is what we are trying to show. In a sense, your very conflict is itself a statement about BCCI. And the kind of operation that it has left behind it. And this is the wake, if you will. This is the fallout.

Those banking institutions or those institutions that perform above board and so forth, do not have these kinds of accusations flying around them, and do not leave these kinds of question marks, hopefully.

So I think it has served its purpose of leaving in people's minds the sense that it came in, offered itself where other banks would not go, provided an opportunity to get around the legitimate credit interests of the rest of the banking world, took advantage of a country's plight in that respect, made money off it, and left a lot of chaos in its wake.

And as I say, nothing here is dispositive of any of that. But I genuinely want you to feel that this record is open to you, and if there is any comment that you feel you need to make publicly be-

cause putting it in the record is not sufficient, I want to give you a last opportunity to do that now.

Mr. DEL CASTILLO. I will be very brief. It was very good not to accept comments on presumed or alleged bribes by BCCI, not to these officers mentioned by Mr. Morgenthau, but having to do with the President having accounts in BCCI. In your power, you have records from all of the banks, without exception, all the banks mentioned in the reports of Cole and Belar, proving that these accounts do not exist. Not only are these from BCCI, but these are from the Sun Belt Bank of Dallas, the Societe General from France, the Societe Santander from Spain.

Senator KERRY. Let me say that you are putting in the record things that never came out previously. I mean, none of this was talked about.

Mr. DEL CASTILLO. Yes, but Senator, they have not been talked about here, but in the press.

Senator KERRY. But we are not here to try to sift out what has been out in the press, and I think the other side very respectfully heeded to my earlier caution. So I think it is really fair not to make this committee now the recipient of any rebuttal of something that has not been set forth.

So on that note, I would like to, again, leave the record open for you to submit some of this, but I am not going to receive it at this point in time, if that is fair.

Mr. DEL CASTILLO. Very well, I will conclude. These are matters to be refuted in other bodies.

What I would like to say, you asked me what my impression was about this whole BCCI business. My general impression, without admitting any value judgment about this bank, which I see is a bank with multiple evidence of corruption in many parts of the world, but my impression is that when it went to Peru in 1984 and later in 1986, this evidence that we have now was not known at that time.

BCCI worked in London until 2 weeks ago. It has had offices until last year here in the United States, if I am not mistaken. In Peru where it came and surprised people, but if people of the Central Bank in 1987 on their own initiative decided to reduce their deposits in BCCI, but I think this was a decision which is sort of indicative of what we are seeing now.

And I think that here there has been an attempt to have coincide certain meetings held by the President with BCCI people. I say supposed meetings because they haven't been proven. Nobody knows who this Riizo Patron even is. He's not an officer or an official of the Peruvian Government. I do not know who Oscar Riizo Patron even is. Calvo, I don't know who he is either. These people have been mentioned.

Senator KERRY. Let me say it is very obvious that BCCI have left investigators in Peru a lot to do, investigators in London a lot to do, investigators in New York and Washington and all around the world. And it is too bad that so much investigative effort is going to have to be consumed by this one enterprise, but obviously it is.

Mr. DEL CASTILLO. I just want to thank you for your courtesy and for the opportunity you have given me to speak, and I think that you have acted with great justice.

Senator KERRY. Thank you, sir.

Gentlemen, if you could please take your places there. I ask you if you would stand and would you raise your right hand. Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. RODRIGUEZ. Yes, we do.

Mr. ALCONADA SEMPÉ. Yes.

Senator KERRY. Would you state your name, please, for the record?

Mr. RODRIGUEZ. Yes, I am Jesus Rodriguez. I am a Deputy of the Argentine Congress.

Mr. ALCONADA SEMPÉ. My name is Raul Alconada Sempé. I was Secretary of Defense and Secretary for Special Projects of the Foreign Ministry of Argentina.

Senator KERRY. Would you please describe briefly for the committee the history and the significance of the involvement by BCCI in Argentina?

STATEMENT OF JESUS RODRIGUEZ, MEMBER, CHAMBER OF DEPUTIES, ARGENTINA; ACCOMPANIED BY RAUL ALCONADA SEMPÉ, FORMER SECRETARY OF DEFENSE AND FORMER SECRETARY FOR SPECIAL PROJECTS, FOREIGN MINISTRY, ARGENTINA

Mr. RODRIGUEZ. Yes, sir. To save time, we will try to be brief.

We know that Ghaith Pharaon came to Argentina May 17, 1981, that November 18, 1986, the Central Bank of our country authorized the transfer of 28 percent of the capital and votes of a financial holding company property of the Company Rio de la Plata. This company was having economic difficulties and today its officers are being tried, and these trials have been going on since 1985, approximately.

Then on November 2, 1987, an authorization of the Central Bank of Argentina was given to this financial company to increase its capital and to acquire more stock, and it became BCCI.

Senator KERRY. What year did it become BCCI in Argentina?

Mr. RODRIGUEZ. November 2, 1987.

Senator KERRY. Did BCCI or Mr. Pharaon, to your knowledge, seek political influence through their investments in Argentina?

Mr. RODRIGUEZ. I really do not know, Mr. Chairman, but I could refer to some statements that Mr. Pharaon made in trying to become an Argentine citizen at that time. He said that he had been working for 22 years in business; that he had graduated from Harvard Business School and was on the staff of Harvard Business School as an expert; and that he was an industrialist with much experience in the Middle East and other countries of the world; that he worked in cement, petrochemicals, shipbuilding, oil, insurance, hotels in the United States and in other countries.

He said that he was a majority shareholder in Intergroup Development Co., and in accordance with information from a specialized magazine, Building Design and Construction of 1987, he was number 27 in rank of all companies, so that he had offices in Dallas and Florida, and BCCI was a bank originating in Luxembourg with branches in 72 countries, including the United States;

and that he had activities in the Citrus Bank in Miami and in the Central Trust Bank in California.

Now, regarding your concrete question——

Senator KERRY. What year did he say all these things? When did all these things come out?

Mr. RODRIGUEZ. According to our information, about 1988.

Senator KERRY. He was involved prior to that, was he not?

Mr. RODRIGUEZ. He said that he had been working in business for 22 years before that.

Senator KERRY. What role has the Argentine Parliament had in investigating BCCI's involvement in Argentina?

Mr. RODRIGUEZ. You know, Mr. Chairman, Argentina, the Congress of Argentina is one of the branches of Government, and there are a number of different types of background that the Congress has at its disposal, different kinds of documentation that I would like to give you. This documentation refers to the following.

March 2, 1990, there was a request to the executive branch for information made by Deputy Felgueras regarding information of an international nature regarding the illegal activities of BCCI.

On May 31, 1990, there is another request for information by Deputies Jello Rosas and Alvarez-Guerrero, also in connection with BCCI activities and the establishment of a hotel which was being built in Buenos Aires.

July 13, 1990, another deputy and I presented reports regarding these linkages, and in July 19, 1990, additionally another request for information was submitted by Mr. Felgueras regarding the connection with Hotel Hyatt being built at that time in Buenos Aires.

Unfortunately, none of these requests for information was responded to by the executive branch of our Government. I ask that a translation of these requests be inserted in the record.

Senator KERRY. So ordered.

[The information referred to follows:]

Parlamentary Form No. 58—July 19, 1990

8—Felgueras and Rodriguez (Jesus): a resolution. Information request from the Executive Branch concerning presidential statements about the construction of the Hyatt Hotel at 1433/35 Cerrito Street in the Federal Capital and the bilateral treaty proposals being studied by 'the Foreign Ministry in order to impound the bank deposits in cases of drug trafficking.

Resolution project

THE CHAMBER OF DEPUTIES OF THE NATION RESOLVES

Addresses itself to the National Executive Branch in order to receive information from the competent entities:

1. What was the "personal" call that President Carlos S. Menem had to make to free up from "red tape, corruption and the hope of gifts" the authorization to construct the Hyatt Hotel alongside the French Embassy? * * * (*La Nacion,* page 3, July 13, 1990)

2. What are the "things" that—according to the same declarations in the aforementioned newspaper—which, according to the President "* * * could put a break on an investment which in this case was worth $30 million dollars?"

3. If the sale of the Alzaga Unzue mansion—Cerrito 1433/35—at the hands of the Hotel Corporation of Argentina (HCA), belong to the Hyatt chain, has anything to do with the presidential statements in *La Nacion* on July 13.

4. If the link between the Bank of Credit and Commerce International (BCCI) and the Hyatt chain is the multimillionaire Ghaith Pharaon?

5. If there exist links between the banking entity Bank of Credit and Commerce International and the laundering of drug money.

6. If in the scandal created by the sale of the Alzaga Unzue house there is an owner-stockholder of a bank which takes care of the laundering of dollars that come from the traffick of drugs.

7. If among the projects under study in the Foreign Ministry of bilateral treaties with the United States, the United Kingdom and Italy, among other countries, "designed to authorize the impounding of bank deposits in the cases of narcotics traffickers," it is understood that the bank of Credit and Commerce International (BCCI) recognized before the courts in Miami its culpability in the laundering of $32 million dollars coming from the traffick of drugs by the Medellin Cartel.

8. If the investment of BCCI in the deposit of $32 million dollars—for the purchase of the Alzaga Unzue mansion—a deal which counted on the support of the Economy Ministry, under the rubric of the foreign debt capitalization scheme, responds to that announced in an advertisement by the hotel business which said: "* * * the presence of a banking entity responds exclusively to the determinations of Central Bank circular A1.109."

9. If the motives which caused Menem to invite into his office the principal shareholder of a bank accused of drug money laundering (Ghaith Pharaon) are linked to the fact that the then head of the Central Bank, Javier Gonzalez Fraga and Hector Grimberg, the former partner of President Menem in a law firm, were, respectively, economic and legal advisors to the Hotel Corporation of Argentina (HCA) of the Hyatt chain.

10. If another member of the hotel enterprise is Cristian Zimerman, the ex-president of the Central Bank during the time of Martinez de Hoz.

RICARDO E. FELGUERAS—JESUS RODRIGUEZ.

Fundaments

Mr. President: Carlos Menem, president of the nation, declared to the press that he had to "personally" make a call in order to free up from "red tape, corruption and the hope of gifts" the authorization to construct the Hyatt Hotel alongside the French Embassy. He said these actions could put a break on an investment worth $30 million. On March 2, 1990, we presented a Resolution Project (No. 4,273-D-89) in which we asked whether if the scandal created around the sale of the Alzaga Unzue house there was (sic) an owner-stockholder of a bank in charge of laundering dollars coming from the trafficking of drugs. We also asked if there existed ties between the banking entity Bank of Credit and Commerce International (BCCI) with the laundering of narcodollars.

The Foreign Ministry announced (*Ambito Financiero,* July 17, 1990) the study of bilateral treaties with the United States, the United Kingdom and Italy, among other countries, to "authorize the impounding of bank deposits in the cases of narcotics traffickers." The Bank of Credit and Commerce International (BCCI) recognized before judicial authorities in Miami its culpability for the laundering of $32 million from drug trafficking by the Medellin Cartel and the same entity (BCCI) invested $32 million to purchase the Alzaga Unzue mansion, by HCA before the Central Bank even though the hotel enterprise communicated that "its presence in the deal was due to a disposition of Central Bank circular A1.109."

Faced with the presidential declarations and the bilateral treaty proposals being studied by the Foreign Ministry to "impound the bank deposits in cases of narcotraffickers," we ask the quick response to our current question and to that which we brought up on March 2.

The silence of the Executive Branch and of the pertinent entities on this subject causes us to demand the quick approval of this project.

RICARDO E. FELGUERAS—JESUS RODRIGUEZ.

Senator KERRY. Is this in conjunction with BCCI?

Mr. RODRIGUEZ. Yes, sir. Because we knew that through the capitalization process, BCCI was investing in a Hyatt Hotel which was being built in Argentina, and from a newspaper report in La Nación in October 1988, we knew about the accusation against BCCI in the United States, and we had at our disposal the analysis of this committee, Senator Pell's analysis regarding money laundering.

Senator KERRY. What time period, Mr. Rodriguez, are you now referring to?

Mr. RODRIGUEZ. We are talking about the year 1990. More recently than that, Mr. Chairman, May 17, 1991, the president of our

bloc, our electoral bloc, and other deputies submitted the idea to the Congress of setting up a commission to analyze drug trafficking and the modus operandi of the way they work and their effects on society and the State.

In order to be brief, Mr. Chairman, and not to abuse your patience, I would like to very briefly quote some of the bases used for setting up this congressional committee.

Senator KERRY. This congressional committee was for investigating BCCI?

Mr. RODRIGUEZ. To investigate everything having to do with drugs in Argentina. The urgency of setting up the committee, we thought—or think, is based on the need to clarify to public opinion the various responsibilities and liabilities of various officials involved. If this is not done, the credibility of the whole Government, and even the democratic system, will be jeopardized.

Second, the history of drug traffic has shown that infiltration of drug trafficking rings into Government has been a decisive step in their growth. This is not true in Argentina, but we could imagine consequences, the consequences if this were to happen in the future.

Third, the need to draw up policies which will allow us to act coherently and consistently throughout the Government at the various levels to get information which is now being done in a very disjointed way.

Four, the advisability, Mr. Chairman, to stop intervention of foreign bodies, which would be tantamount to admitting that the national bodies are impotent.

Five, to allow a multidisciplinary and multiparty report to be set up.

And six, to see how much penetration there has been into the drug enforcement bodies and police bodies in Argentina. The Government and most of the parties in Argentina find the setting up of this committee a positive thing.

Senator KERRY. That committee was set up when?

Mr. RODRIGUEZ. Let me be clear. We asked that the committee be set up May 17, 1991.

Senator KERRY. Prior to that, had you, in the course of your parliamentary efforts, had any contact with BCCI?

Mr. RODRIGUEZ. No. Personal contacts of no kind at all, but I did have the desire of clarifying episodes which had come out in the press, and that was the reason why we had been asking for information. The President, in a report published in the La Nación newspaper, talked about the construction of the Hyatt Hotel, which was being built in Buenos Aires. This happened in 1990, and this was an article which came out in La Nacion, which is the newspaper in Buenos Aires.

Senator KERRY. Now, the efforts that you are currently making to investigate, Mr. Rodriguez, is the Government—are you meeting with cooperation in this effort?

Mr. RODRIGUEZ. In Buenos Aires or in Argentina, there are many intensive judicial investigations going on.

Senator KERRY. These judicial investigations that are going on, do they center on BCCI at the current moment?

Mr. RODRIGUEZ. No. Some are connected with a Spanish suit having to do with drug trafficking, being investigated by Judge Servini de Cubria in Argentina; also involved here is BCCI. This week there was a seizure of the BCCI offices in the city of Buenos Aires.

You understand, sir, that on this subject we can only say that we respect the functioning of justice, and our desire that this situation will be clarified very soon, and finally, to say to you, adding some information, that our party in the Chamber of Deputies has initiated a political suit against the judge who was handling this case. Servini de Cubria is her name.

Senator KERRY. Now, Mr. Rodriguez, one of the things that you have been involved with in your career is the effort to try to open up the stock ownership process and, in other words, to have more open system of knowing who owns what and moves what. Is that correct?

Mr. RODRIGUEZ. Yes, Mr. Chairman. We, together with some other legislators, are authors of a law which was promulgated in Argentina providing for giving names, or putting names on all stock of all corporations in order to identify clearly who are the owners of each of these companies, following the comparative legislation in many other countries as well.

Unfortunately, one of the initiatives of President Menem's Government in August, September 1990, was to derogate this law or cancel it, which makes it more difficult to investigate or to find out exactly who is the owner of each one of the companies existing in Argentina.

Senator KERRY. Does it also frustrate the capacity to learn more about BCCI?

Mr. RODRIGUEZ. It makes it more difficult to find out, for instance, if the shareholders of BCCI or the members of the Board of BCCI, Argentina, are also owners of stock in other companies in Argentina.

Senator KERRY. Is that a frustration to the investigative effort to determine the BCCI track?

Mr. RODRIGUEZ. It is an additional difficulty, Mr. Chairman, but I wanted to be absolutely clear that this was not the reason used by President Menem to cancel that law to which I referred.

Senator KERRY. What is the status of BCCI in Argentina now?

Mr. RODRIGUEZ. Very concisely, let me say, first, never did the Central Bank of Argentina have deposits of its international reserves in BCCI. Never. I also must add that during 1990 the Central Bank of Argentina, in its analyses of the regulatory practices in the BCCI branch, reached an agreement whereby the branch would cease all operations in Argentina. Toward the end of May 1991, this subsidiary was not operating any longer, having closed its branches.

Finally, BCCI Argentina was totally closed July 30, 1991. And, as I said this week, I do not have the exact information, Mr. Chairman, because I do not have the report of the Central Bank in order to answer this question properly.

Senator KERRY. Do you recall what was said in the press with respect to the closing?

Mr. RODRIGUEZ. No, I do not. If you forgive me, they are saying here that BCCI asked for its own closure. It asked itself that its activities be closed in Argentina.

Senator KERRY. We are on the back of a vote here. We are going to take our last recess. We will complete this in total when I return in about 10 minutes from now.

We will stand in recess for 10 minutes.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order. We need to try to proceed very rapidly. I apologize for that, but I have a banking wrap-up. They are trying to get the banking bill out, and I have been here all morning and, therefore, need to try to get over there. So we will have to truncate this a little bit, and I ask your understanding on that.

Mr. Rodriguez, share with the committee, if you will, what the status of money laundering and drugs are in Argentina right now.

Mr. RODRIGUEZ. It is difficult to answer that, Mr. Chairman, especially because precisely on the matter of drug trafficking, an investigation, a judicial investigation is opening just today.

Senator KERRY. Is it known to be a problem in the country? I take it if there is a judicial commission that is opening, it is a problem.

Mr. RODRIGUEZ. Indeed, it is a problem, and so much so that I read you the bases for our party's coalition asking for this commission. It is not that we are trying to interfere with the work of the justice system, but because we think it is necessary to instill in collective consciousness and in everyone's mind the political and social implications of drugs and thus the power of drugs.

Mr. ALCONADA SEMPÉ. Mr. Chairman, just one brief clarification. During Dr. Alfonsin's Presidency, when I was in the Foreign Ministry, we had a major concern with introducing the whole subject of drug trafficking in Argentina because, thank God, until some time ago, Argentina was not affected, either as a consumer or producing country. And it was starting to be used as a transit country.

One of the serious problems is that society sometimes is not aware of the tragedy that occurs. And we think that we have nothing to do with it. The effects that foreign investigations are having and investigations in Argentina now are useful for us to become aware of how serious this is. That is why Deputy Rodriguez was talking about investigating a phenomenon that we do not want to consolidate itself or to have time to consolidate itself because if we do not do something now, it will be too late.

Senator KERRY. Mr. Alconada Sempé, I agree with that, and let me just ask you now that you have spoken up. When you worked in the Foreign and Defense Ministries, and you are a former Secretary of Defense for Argentina, what was the policy of the Government with respect to arms sales?

Mr. ALCONADA SEMPÉ. Argentina is not an important weapons-producing country. We produce secondary or medium-sized weapons, but the main principle guiding us was not to sell weapons to any county involved or potentially involved in any conflict with another country. We did not sell to either one, either side.

Second, we did not sell weapons to countries subject to doubt about their international policies. That meant that despite great

economic problems and despite the fact that we needed to make such sales of planes or ships, that we did not do so because the countries that wanted to buy were countries that were fighting each other.

When these operations are conducted, they have to appear in the budget as possible income. In other words, the Parliament takes cognizance of weapon sales whenever they occur.

Senator KERRY. Just as we do. Did the Government at some time seek to sell its fleet of Mirage aircraft?

Mr. ALCONADA SEMPÉ. Yes. Are you talking about President Alfonsin's Government or this one?

Senator KERRY. I am saying normally. When you were Secretary, when you were at Defense. If a sale was to take place, how would that transaction have been effected?

Mr. ALCONADA SEMPÉ. First a political decision had to be taken by the Defense and Foreign Ministries and the Economics Ministry. A special committee made up of three State secretaries which would be deputy ministers. And they had to authorize both sales and purchase operations. And when there was a sale, it was a special committee within the Defense Ministry which dealt with the operation, having people in the Ministry carry out the sale.

But during our ministry—answering the question now and a statement by a Senator of California this morning, during President Alfonsin's administration, the Mirage planes were not offered for sale—the Mirage sales to which reference was made this morning.

Senator KERRY. When did you leave Government service, as Minister of Defense?

Mr. ALCONADA SEMPÉ. I left Defense in May 1988. But I continued as Secretary of Special Issues in the Foreign Ministry, which also had to do with the sales of arms. And that I left in July 1989.

Senator KERRY. Did you learn some information, such as sale of military weapons that was to take place, of the Mirage?

Mr. ALCONADA SEMPÉ. Not through the press. Through contacts with armed forces people, air force people. I suppose if an attempt was made to sell that many planes or such an important number of planes for Argentina, we would have known about it or heard about it.

Senator KERRY. Did you learn anything about BCCI in any kind of sale?

Mr. ALCONADA SEMPÉ. No. During our Government and during these 2 years of the new Government, I had no knowledge that this bank was directly connected to this.

Senator KERRY. Mr. Alconada Sempé, were you shown some documents earlier today regarding BCCI's transaction of some weapons, the Mirage, et cetera? Have you seen those?

Mr. ALCONADA SEMPÉ. This morning here I saw a copy of some documents connected to Mirage aircraft with photographs and analysis of planes with flight hours, et cetera. These were anonymous papers. I can't say anything about where they came from or who their authorship. I do not know what the origin of these documents might be. I was told that they were found in an office of that bank, in the Miami offices. But I do not know that these are authentic or what their origin might be.

Senator KERRY. Let me say for the record that these are documents provided to us by BCCI in response to our subpoena. And they speak specifically about Mirage 3CB, general description of airplanes manufactured in France, modified to the Argentine Air Force requirements following years of combat experience.

Is there any particular reason why documents involving Mirage aircraft from Argentina would be in the hands of BCCI?

Mr. ALCONADA SEMPÉ. Yes. This is a question that I am asking myself as well. If it was air force documentation, and the cases that I have known about in the Defense Ministry, these are papers which have the letterhead of the Defense Ministry or the air force or the combined chiefs of staff. I suppose these are papers that this bank had. I do not doubt that, but I repeat that I do not know anything about their origin or how the bank came into possession of such details.

Senator KERRY. Do you know anything about whether or not at recent—in the last few years, there was an attempt to try to make this kind of transaction through BCCI?

Mr. ALCONADA SEMPÉ. No, I don't know anything about that.

Senator KERRY. On pages 31–35 of these documents regarding ground support equipment, it is suggested that the Argentine Air Force will provide engine test cell, portable. On another page it says Argentine Air Force will provide necessary contractor to support intermediate level component repair until full capability is established in customer country. Costs will be negotiated directly with contractor representative.

With respect to pilot training, in any and all training in Argentina, customer country spares and equipment will be provided to support the training effort. Total costs to be negotiated separately.

This seems to be indicative of a transaction which was being brokered through the bank, and I wonder if you can shed any light as former Defense Minister on how that might be, given the procedures that you've described that existed for the sale of weapons. Obviously, as a former Defense Minister, this seems to be a transaction you are unaware of. Is there any way in which this kind of sale can be carried on secretly without your knowledge?

Mr. ALCONADA SEMPÉ. No. Sales without the Defense Minister knowing, from 1983 on, it was impossible, because it was only the Defense Ministry that authorized such sales. What does exist, and I think this is a general problem throughout all countries, is that there are countries that have arms, countries that need arms, and the famous middlemen crop up. The brokers, the sales agents, and these are the people that try to match the buyer and the seller.

And sometime these people just crop up spontaneously, not at the instructions of either the buyer or the seller. They just try to look for such a deal. This is what may have happened. It may have happened that the bank was trying to find information in order to go out and find a buyer and get the buyer interested in dealing with the seller.

Senator KERRY. The reference here is to Mirage aircraft that have been modified to the Argentine Air Force requirements. That is what it says right here. It says Mirage 3CB. General description. Manufactured by Avion Marcel Dassault, France. Modified to Argentina Air Force requirements. Down here in the bottom is a no-

tation; 22 units of aircraft, plus adequate spare parts, including 6 spare engines, compare at a price of $110 million.

Is this the first time you ever saw this document? Today?

Mr. ALCONADA SEMPÉ. Yes. This morning.

Senator KERRY. Have you ever heard discussion of the sale of 22 units of aircraft by Argentina through the Bank of Credit Commerce International for $110 million?

Mr. ALCONADA SEMPÉ. No, not until today.

Senator KERRY. That has never surfaced in any way in your experience in Argentina itself?

Mr. ALCONADA SEMPÉ. That's right.

Senator KERRY. Is there a way in which 22 aircraft could be sold and shipped out of Argentina through a bank like this under the circumstances that appear in this kind of document?

Mr. ALCONADA SEMPÉ. I would dare to affirm that the economic situation of Argentina is impossible, because the volume of $110 million is a substantial amount for the work of the Treasury and the Finance Ministry. This amount of money could not have gone unnoticed.

And from the military point of view, this could not have gone unnoticed that 22 planes were missing because this is a substantial percentage of the total number of aircraft that the Argentine Air Force possesses.

Senator KERRY. It could be that the transaction did not, in effect, get consummated. It may have been in some kind of shopping stage where no customer was found. I do not know.

Mr. ALCONADA SEMPÉ. That's a possibility. That is a possibility. As I said before, that they were looking for somebody to then make a deal. But as far as the Argentine Government—yes? But I would like to stress as far as the prior Argentine Government and as far as I know about this Argentine Government, the planes were not sold or placed for sale.

What is possible though that this bank, as a broker or middleman, tried to find someone interested and then see if they could get the seller interested as well.

Senator KERRY. Rio Cuarto is what? Rio Cuarto.

Mr. ALCONADA SEMPÉ. It is one of the Air Force bases of the Argentine Air Force.

Senator KERRY. Page 39 of this document says Argentine Air Force will provide an organizational and intermediate training program, including on-the-job training, and will provide fully qualified instructor personnel to conduct the training. The training will be provided in Rio Cuarto, Argentina.

How could that kind of offer be made without somebody in Argentina in the Air Force agreeing to provide training and without providing the base?

Mr. ALCONADA SEMPÉ. Of course the offer is made based on the Defense Ministry and the Air Force authorizing the sale. It's a premise, a hypothesis of the author of this paper that they would have the air base and the pilots for purposes of this training. It is part of the purchasing of aircraft, that if you buy aircraft of certain sophistication, the training goes with the purchase.

Senator KERRY. Did any sales of aircraft take place while you were the Defense Minister?

Mr. ALCONADA SEMPÉ. The only attempt that occurred during my job was the sale of planes to the United States. Unfortunately, this attempt failed.

Senator KERRY. Did BCCI handle that?

Mr. ALCONADA SEMPÉ. We dealt directly with the Pentagon, the head of the Joint Staff. The Minister of Defense came up here to talk to Pentagon officials, and this was CID. The idea was to sell Argentine planes, but unfortunately, this never came to fruition.

Senator KERRY. What year was that?

Mr. ALCONADA SEMPÉ. 1988. The end of 1987, the beginning of 1988. But these were not Mirages. These were aircraft produced, manufactured in Argentina.

Senator KERRY. So there was no sale that you ever knew of or were aware of of Mirage aircraft.

Just one or two last questions, if I may, Mr. Rodriguez. Are the accusations that are currently being made in Argentina about what is called Yomagate, which is a whole series of questions referring to former in-laws of the President. Are those accusations at all related to BCCI's involvement in Argentina?

Mr. RODRIGUEZ. The case is before the courts right now. I recall that the judge, the lady judge, has also been indicted by the Chamber of Deputies. Her actions are being also audited by the Supreme Court. Therefore, we can't really say much at this point. Just add information from the newspapers exclusively where there is a witness who has appeared in court saying that he came to Argentina at the suggestion of Mr. Pharaon, and that this witness also involves former officials of the Argentine Government in this whole episode which we have come to call Yomagate.

I repeat, these are just newspaper reports about such episodes.

Senator KERRY. Did any high Government officials ever intervene on behalf of BCCI's hotel project or other projects?

Mr. RODRIGUEZ. In the public presentation of the hotel project, in capitalizing the foreign debt, professional role was taken by a person who later became the president of the Central Bank, Javier Gonzales Fraga. He was an adviser at the time.

Senator KERRY. And his name, that was president of the Central Bank?

Mr. RODRIGUEZ. Javier Gonzales Fraga, president of the Central Bank under Menem.

Senator KERRY. Did the President ever say whether or not he had to intervene personally? Did he say that publicly?

Mr. RODRIGUEZ. I will give you a concrete reference on this, Mr. Chairman. In a report in a newspaper, La Nacion, July 13, 1990, the President, answering a question, said personally he had to free the adjudication or the bidding to build the Hyatt Hotel free from bribes and kickbacks, et cetera.

Certainly because our request for information points exactly there, to find out why President Menem said this and the officials presumably involved in a matter of this kind, and when he talks about demarches or steps, what kind of steps was he talking about that the President had to engage in?

Senator KERRY. Has your effort to try to get into BCCI's dealings now been frustrated or difficult for any reason?

Mr. RODRIGUEZ. Unfortunately, we have received no reply I mentioned to you for request for information that we in the Chamber of Deputies have forwarded to the executive, and none of them have received a reply to date.

Senator KERRY. Well, unfortunately we have gone well beyond the time that I thought I was going to be able to hear, and I regret that because I know that this winds up being a little bit shorter and somewhat constricted. I am going to leave the record open because I think staff may want to talk to you about specifically what we are going to put in in terms of your documentation.

I would like to thank the interpreters very, very much for the excellent job that they have done. I know it is very difficult to do this simultaneously and with some of the complicated concepts that we have been dealing with here, but I very much appreciate it.

And I particularly appreciate the time that you have taken. I think it has been helpful to us to try to understand what you do know and what you do not know and what the state of knowledge is with respect to Argentina and what the capacity to be able to get at this is.

I think there are some serious questions about what BCCI was doing there. We are not going to ask them all here, but we are getting at least a sense of some of the tentacles that are out there. And it may be that down the road we are going to want to talk to some of your law enforcement experts about the problems of money laundering and the bank enforcement issues which neither of you are expert in but which are very important to us in understanding the international linkages of the flow of this money.

There is an awful lot of information that is going to come out in the course of the Morgenthau investigation and also our own. We are going to probably have to wait until some further investigative work has been done before we proceed down that road.

Thank you very much, gentlemen.

[Whereupon, at 2:30 p.m., the committee adjourned, to reconvene at 10:03 a.m., August 8, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

THURSDAY, AUGUST 8, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senator Kerry.

Senator KERRY. The hearing will come to order.

Good morning. This morning we are going to hear the testimony under oath of Mr. Masihur Rahman, who was the Chief Financial Officer for BCCI from 1975 through 1990. I want to say for the record that Mr. Rahman is here voluntarily having come to the United States following threats to his physical safety in London. He has not been able to talk publicly for the last year about BCCI as a result of a court order that was entered into in London at BCCI's request.

On Saturday, my staff and the staff of the Federal Reserve went to meet Mr. Rahman at Kennedy Airport in New York with a short amount of notice that he was coming, and that he was concerned about his physical safety. And in cooperation with U.S. Customs officials and Immigration officials. And I express my appreciation to the State Department and to Bob Kimmet who assisted in guaranteeing that his entry was facilitated. He is now here before us of his own desire.

He is testifying today in accordance with a revised court order granted in London last week at my request, which permits him to testify. This court order specifically permits him to testify before the U.S. Senate. And in addition, I would add, that his testimony is secured with the full and complete cooperation of the Federal Reserve and the Manhattan District Attorney, Mr. Bob Morgenthau, and of the Justice Department.

Now obviously, and I say it right up front, the scheduling of a hearing like this during recess and on short notice is unusual. I was personally reluctant to do it, but I think that the circumstances are urgent enough that it was important that we do it. Most importantly, I think Mr. Rahman feels very strongly that he wants to get this story out, that he has been living under a personal cloud, which I have come to understand quite well, as I have met

him and his family yesterday. He has two very attractive, intelligent young children who are feeling the pressures of this transition. And his wife is here, who joins him, who is seated right in back of him. She is American, from New York, and is also feeling the tensions and pressures of what has happened to their life as a consequence of this.

Therefore, we really made a decision that because of the threat to physical safety, and because of his own personal feelings about the need to get this behind him, that we would proceed today. I personally talked to Senator Pell and to Senator Brown in order to clear with them the notion of proceeding forward. And Senator Brown, who cannot be here because he is on a trip out of the country.

Let me just review quickly for the record, the BCCI road that we have travelled to this point, and then Senator Cranston has asked me to read into the record a few comments of his, and he has submitted some questions.

First, we have learned a lot about BCCI to date. We know that BCCI was a bank whose senior officers created a web of corruption that extended literally around the world. Second, we know that because of its unique status of being located everywhere but regulated no where, in the context that most of us think of bank regulation, BCCI became a natural haven for the movement of narcotics money or the proceeds of crime, or even for nefarious deals.

Third, we know that BCCI's chief officer, Agha Hasan Abedi, and others systematically developed ties with leaders around the world, with people in positions of influence, and provided these people at various levels with favors and benefits of various kinds, ranging from creating charities to strengthening these leaders politically or otherwise, to helping to arrange arms deals, to creating slush funds of the kind that General Noriega had.

Fourth, BCCI used its political ties to obtain open control of many banks around the world, which became part of the BCCI family, and secret control of other banks, which we have seen in the case of a number of banks here in the United States.

Fifth, foreign and domestic intelligence agencies developed close ties to BCCI. We know of some of those ties, though not all of them. Knowing of BCCI's criminal activities, the CIA and other intelligence agencies, made use of BCCI for a variety of purposes, some yet to be disclosed.

Sixth, we know that law enforcement and regulators in this and in other countries had a certain amount of information, substantial by the late 1980's, concerning the nature and extent of BCCI's criminal schemes. And yet with the exception of the prosecution of some low-level personnel in Miami, that nothing seemed to happen until this issue hit the front pages, and until recently.

Seventh, we know that BCCI is an institution which lost billions of dollars, and we will hear something of how that happened this morning. And those billions in losses were systematically concealed by BCCI's leadership. And our witness this morning will define that leadership and the extent of the knowledge within the bank of that. And that this loss or series of losses were hidden in part by BCCI's practice of obtaining substantial central bank deposits from governments all over the world. The collapse of BCCI has already

threatened some of these governments, and it will be some time before the full extent of government losses globally will be understood.

Eighth, we know that the accountants a lawyers hired by BCCI wound up helping the bank to conceal the true nature of its activities for some time, and that that occurred even after serious allegations had arisen about criminal activity. The consequence of these facts, largely hidden until recently, is now demonstrated daily around the world. In India, money laundering rackets involving BCCI and aides to assassinated Indian leader Rajiv Gandhi are now under investigation.

In Pakistan, issues arise about BCCI's involvement in its illegal nuclear arms development program.

In Egypt, the Government has closed BCCI on money laundering charges after a run on the bank.

In Argentina, as a result of hearings which this committee held last week, allegations have been raised that BCCI was brokering the sale of French Mirage jets to Saddam Hussein.

In Cameroon, a Government with few resources now has even less as a result of BCCI-related losses.

There isn't an American who doesn't understand the impact of the drug problem in this country. It's a problem for all of us, but also for people all around the world, not just Americans. And arms trafficking has brought misery around the globe. The spread of nuclear weapons, needless to say, creates even greater risks of confrontation and of destruction.

When a bank like BCCI moves drug money and big dollar weapons money, and helps terrorists acquire the material to make nuclear bombs, if that is what they did, while political leaders who were supposed to be protecting them move aside, then governments themselves wind up becoming partners in the enterprise of those criminals. A big part of this problem is that BCCI came to believe that it could buy anything and facilitate everything.

We have learned a lot in recent weeks, but I must say to you what strikes me particularly is the degree to which this bank thought it could steamroll any obstacles that lay in it's path. Certainly laws and standards were no barrier. Why? Because BCCI thought it could buy everything—buy lawyers, buy accountants, buy regulators, buy access, buy loyalty, buy government, buy safety, buy protection, and even buy silence. And what it could not buy or did not need to, it could facilitate.

You need a Mirage jet to go to Saddam Hussein, BCCI could facilitate it. If you wanted weapons in the Mideast and possibly even atomic weapons, who do you call? BCCI. You want drug money to move from cartel to safe haven. BCCI. It gave new meaning to the term "full service bank." [Laughter.]

Today, we continue the process of trying to understand what happened with BCCI and who was responsible. And hopefully, out of all this will come a stronger effort by government and the private sector to prevent this kind of behavior from scarring the political landscape, and the business landscape.

Mr. Rahman, we are very pleased to have you here today. You are an intelligent and thoughtful person who has spent a lifetime really in the field of finance and who understands this bank as

well, I suppose, as most people, with perhaps a few exceptions of those who were at the highest level, as I think you will describe.

Before we begin, I would like to make a part of the record the court order which permits you to appear here today, and we will label that for today's hearing, exhibit 1.

[The information referred to follows:]

Adrian Waney Chris Williams Guy Jordan Frances Alderson Adam Hands David Mansfield Peter Cassidy
John Bishop Anthony Bunch Lesley Webber Keith Hartley Brian Tansley Jonathan Cheung Angela Rook
Neil Biggs David Jones Mark Collingwood Richard Davis Andrew Hibbert Dean Lewis
Barrie Lloyd John Monaghan Lawrence Pryor Mark Lane Edward Corbett Susan Scott
Peter Bentone Robert McCullough Mark Roe Stephen York Edward Davies Brenda Martin
Martin Hermann Martin Roberts Peter Wood Russell Booker Anne Molyneux John Meeks

A Privy Council Agents

MASONS
30 Aylesbury Street
London EC1R 0ER
Telephone 071-490 4000
DX 53313 Clerkenwell Telex 881117
Facsimile 071-490 2545

By Fax No 202 224 8525
And by Post

The Office of Senator John Kerry
United States Senate Committee on
Foreign Relations
Washington DC 20510-6225

Att: Mr J Weiner

Our reference RAM/SJG/90451.67 Your reference Direct line

31st July 1991

Dear Sirs,

Senate Foreign Relations Committee Subcommittee on Terrorism, Narcotics and International Operations - Testimony of Mr Masihur Rahman

Thank you for your fax of the 26th July 1991 and please accept our apologies for the delay in replying thereto.

We are pleased to be able to report to you that at our request the provisional liquidator has consented to a variation of the Order to allow Mr Rahman to participate as a potential witness or as a witness in the hearings to be conducted before the Senate Committee.

It would be of great assistance to us in the future conduct of matters on behalf of Mr Rahman if you could inform us by return fax of the particular matters upon which the Committee requires Mr Rahman's assistance by way of evidence.

We should also point out at this stage that due to matters that have arisen in relation to the on-going conduct of litigation on behalf of Mr Rahman in this jurisdiction, it appears most unlikely that Mr Rahman will be able to travel to the United States to meet with you until, possibly, sometime around the 23rd August 1991. We will, of course, update you with regard to Mr Rahman's timetable.

In relation to timetables it would be of assistance to us if you could inform us of the dates when you would like Mr Rahman to come to the United States and the likely timetable of events in relation to his appearance before the Committee.

If you do have any queries please do not hesitate to contact us and we will do all we can to be of assitance to you.

We look forward to hearing from you by return.

Yours faithfully

Masons

MASONS

Senator KERRY. And I will read, as I promised Senator Cranston I would, his opening comments.

This is a statement by Senator Alan Cranston.

Thank you, Mr. Chairman. The events of the last 2 weeks have certainly contributed to the sense of the enormity of the scandal associated with the Bank of Credit and Commerce International, as well as to the feeling that we are still a long way of discovering the full truth about this criminal enterprise.

For that reason, I am pleased to add my welcome to our witness today. I hope he can shed the kind of light on this investigation which will not only illuminate, but also serve as beacon for further investigation. Since our hearings last week, information on several aspects of the BCCI scandal have come to my attention.

Mr. Chairman, as you remember, last week, I mentioned the case of the London Financial Times journalist, Anson Engh, who was found murdered in his Guatemala City apartment. At the time I mentioned the suspicion in journalism circles in Guatemala that Engh's murder was related to arms trafficking allegedly carried out by BCCI in collusion with top leaders of the Guatemalan military. Since then, information concerning Engh's death has come to my attention, that I believe is of direct concern to this committee's deliberations.

First, according to people who talked by phone with Engh in the days before his death, the British journalist mentioned to them he was working on a "big story" related to BCCI in Guatemala.

Second, although officials in Guatemala have sought to characterize Engh's assassination as the work of common criminals, the murder seems to be the work of professional hit men. In this regard, I mention the following details given to me by close friends of Engh. Apparently a silencer was used in the killing, which was done by a single bullet wound to the head. Guatemalan authorities said no bullet was found either in the body or in the apartment. I am told that Engh's head was wrapped in a towel and his body left in the bathroom, something consistent with efforts to keep the murder secret for a period of time.

According to those closest to Engh, a set of documents were stolen from his desk. And reportedly, the Guatemalan authorities have impounded a set of computer disks Engh used for his work.

Once again, I urge President Serano to take all necessary steps to insure that Engh's killers are brought to justice, no matter what their rank or station in life. Some have characterized, wrongly, BCCI's operation as a victimless crime. Anson Engh's death suggests how vacuous a lie that is.

Mr. Chairman, last week, I also brought to the committee's attention BCCI's apparent attempt to serve as an intermediary for the sale of 22 Mirage aircraft belonging to the Argentine air force. Yesterday my office received a very credible report concerning attempts to sell these sophisticated aircraft. According to a highly credible source in Argentina, whose name I cannot reveal, the planes were to be sold in August or September of 1989 by way of BCCI. The would-be purchaser was a man whose name later became sadly familiar to every household in our land, Saddam Hussein.

According to this Argentine source, whose honesty is not in question, BCCI in Argentina was working with a retired, high-ranking naval officer in promoting the sale. It apparently did not take place because of rivalries between the Argentine armed forces themselves.

Finally, Mr. Chairman, the role played by Pakistani authorities, both those of the current government and those of the Zia dictatorship in the BCCI scandal, have raised many questions, some of which I hope we can get answers to today. Among the questions I hope we can address are those concerning BCCI's role in Pakistan's nuclear program, its alleged participation in the destabilization overthrow of Benazir Bhutto's democratic government, the reported break off of U.S. foreign assistance moneys, and other issues of generalize corruption in Pakistan.

As I said, I hope there are some answers today, because, as one can see, there are no lack of questions. Thank you.

Senator KERRY. That completes the statement by Senator Alan Cranston which he asked that I read this morning.

Mr. Rahman, may I ask, please, that you stand so that I can swear you in? Would you raise the right hand? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. RAHMAN. I do.

Senator KERRY. Thank you. Please be seated, and if you could, pull the microphone close to you. I think that would be very helpful. Would you state your full name for the record, please?

TESTIMONY OF MASIHUR RAHMAN, FORMER CHIEF FINANCIAL OFFICER, BCCI, LONDON

Mr. RAHMAN. My name is Masihur Rahman, M-a-s-i-h-u-r R-a-h-m-a-n.

Senator KERRY. Mr. Rahman, where are you currently residing, or where were you residing until recently?

Mr. RAHMAN. I was residing in London until recently.

Senator KERRY. What day did you leave London?

Mr. RAHMAN. I left last Saturday.

Senator KERRY. Now, you are how old?

Mr. RAHMAN. Fifty-seven.

Senator KERRY. You were born where?

Mr. RAHMAN. I was born in Calcutta, in India.

Senator KERRY. Could you tell us a little bit about your background, please?

Mr. RAHMAN. Yes. My father was in the judiciary. He was Chief Justice of the High Court, and he was the first Muslim in the subcontinent to acquire the esteemed title of ICS, Indian Civil Service rank, and went to judiciary.

Senator KERRY. What years would he have been in that role?

Mr. RAHMAN. That was going back to the early 1940's and late 1939's, and therefore I was born and brought up to an extent in a judicial home and that has stayed with me, I think, all my life.

He died—we had nine brothers and sisters, and when he died soon after that the partition of India took place, and we had to leave for Pakistan. That was East Pakistan, from Calcutta, and whatever pension rights he had also lapsed because of the chaotic conditions.

So from a very early age of about 9, all our brothers and sisters had to self-educate themselves in the house. We didn't go to any formal schooling, and I did matriculation along with my sister privately. After that, I got a scholarship to go to the university and I finished my university——

Senator KERRY. What university was that?

Mr. RAHMAN. Dacca University—that's the capital of what was East Pakistan in those days—and I graduated in 1956 and went to England where I was working and studying at the same time from 1956 to 1961. I qualified as a CPA—in England it is called FCA. I am a Fellow of the Institute of Chartered Accountants, which is the equivalent of C.P.A. in the United States of America. I also did simultaneously cost and management, which is an FCMA title, which is industrial accounting.

So literally I and my brothers and sisters have had to grow up on our own. My mother is illiterate, and we had to sustain ourselves by working in the day and studying at night, and I became the first person in the whole of the subcontinent to get both chartered accountancy and cost and management titles, and with these I returned back to Pakistan, and immediately after that——

Senator KERRY. What year did you return to Pakistan?

Mr. RAHMAN. 1961, and immediately after that I was appointed in a Government organization which was the Industrial Development Corp., the Pakistan Industrial Development Corp. This corporation oversaw all the heavy industries of the country, including petrochemicals, steel mill, refinery, shipbuilding.

Soon after my arrival in Pakistan——

Senator KERRY. That was a political appointment?

Mr. RAHMAN. No, I was a technocrat, and I was appointed directly as finance chief—chief of finance.

Senator KERRY. Chief of finance of this unit?

Mr. RAHMAN. Of PIDC, yes. Soon after that, the PIDC itself was split in two parts, West Pakistan Industrial Development Corp. and East Pakistan Industrial Development Corp., so I went along with the East Pakistan Development Corp. and became the chief of finance of that operation.

We had about 11 industries in that year, and by the time I left in 1966 we had 74, 75 industries, including—it was a very hectic period of development in Pakistan, in East Pakistan, and we saw very heavy industries like steel mill and refinery and petrochemical projects come out.

In that capacity I met a lot of very important organizations like the World Bank, IMF, various credit agencies of the world, various large corporate bodies—Japanese, Italian, British—who were actually doing the construction work, so I had a very full life.

Senator KERRY. Now, is it fair to say, Mr. Rahman, that you really held two jobs in your life, other than working when you were getting your education? But from the time you got your formal education, which was unique because you were the first person in the subcontinent to have these two degrees, you were with this Government agency in charge of this finance on the development side, and then second you moved to BCCI, is that correct, or to the other bank?

Mr. RAHMAN. To another bank.

Senator KERRY. To a second bank, but banking was the only other job?

Mr. RAHMAN. Yes.

Senator KERRY. You spent a couple of years with another bank?

Mr. RAHMAN. Yes. During the time in PIDC, because of the very big size of this corporation all the banks used to call on us to do banking business with the corporation. At that time, I met both Mr. Naqvi and Mr. Abedi.

Senator KERRY. What are the full names of Mr. Naqvi and Mr. Abedi?

Mr. RAHMAN. Mr. Naqvi's name is Mr. Swaleh Naqvi, S-w-a-l-e-h N-a-q-v-i, and Mr. Abedi was Agha Hasan Abedi—A-g-h-a Hasan, H-a-s-a-n, A-b-e-d-i.

Senator KERRY. These are the two gentlemen who became primary figures in BCCI?

Mr. RAHMAN. Yes. At that time they were in United Bank, which was also a very new bank in Pakistan, and in 1966 they persuaded me to leave the public sector and go to the private sector in the banking industry, so this was my first entry into the private sector and into banking, and I was made executive vice president though I was very, very young. I was hardly 30 at the time, and I

had not done banking before, so it was a very esteemed title to get at that age.

There were six executive vice presidents in United Bank——

Senator KERRY. Let me stop you there for 1 minute. I just wanted to get some of your background up until the beginning of the bank, and then I want to go back to the beginning of the bank, but let me come to the present for the moment and the circumstances that bring you here.

Would you share with the committee the events recently in your life that led you to jump onto an aircraft last Saturday and flee to the United States?

Mr. RAHMAN. As you will hear later on, I was the chief finance officer of BCCI and in that capacity I dealt with all the audit affairs of the whole group and met Price Waterhouse, and Ernst Whinney partners throughout this period.

In 1989, I was made chairman of an investigation committee by the board at the recommendation of Price Waterhouse, during which time I got to know many, many affairs of the bank which I did not, and this disturbed me very much, because I was the professional in the bank and these were items which horrified me and I wanted to resign forthwith, as soon as I finished my report.

First, they did not believe me. They tried to persuade me to stay on. They tried to persuade my wife to stay on and persuade me, but I refused and I left. That was on August 1 I left.

Since then, my family and I have been hounded. All sorts of direct and indirect threats have been used, to the extent that Scotland Yard got to know about it and the Guildford police got to know about it, and the Guildford police is in Surrey, and they had special security put around our house and special equipment put in the house for direct access to the police station, and my wife and children were suffering greatly because I was continuing to attend office prior to my handing over, and they were being terrorized by these situations and my wife was having to put the children under the bed every night for fear of some physical violence or some gunshots.

Because another senior executive, Mr. John Hillbery, who was in BCC and left at the same time, he informed us—he lived very close to where we did—that there had been a gunshot through his window and he had reported to the police. He was going to join me in trying to make a claim on BCC for compensation because we received nothing when we were released. But he withdrew from this case very hurriedly because of this fear out of this incident.

So my wife having heard this, she was even more terrified and my children were disturbed. We had to pull them out of school.

Senator KERRY. When did you pull them out of school?

Mr. RAHMAN. That was—I can't recall exactly. It was after a few months of my leaving BCC. Then I felt that it was impossible to have this tension on me while I'm trying to restructure my life, so I requested them to leave for America. So they left. I found a job in another bank.

Senator KERRY. When did they leave for America?

Mr. RAHMAN. They left about 3 months ago, and I continued—and she was very concerned, and many of my friends and colleagues were concerned for me, and they constantly asked me that,

how can you carry on with this tension and live in the heart of London when anything could happen any day? Some even offered to come and live in my small flat, but I preferred to be on my own.

I sincerely believe that in life all that will happen is already written down. This is a part of my culture, and I believe anything which will happen to me, and the date and time it will happen to me, is already down, so I don't worry about these things and I don't concern myself with these things, and so I stayed on.

In the meanwhile, you may know that I was requested by the district attorney to come to America to give a deposition.

Senator KERRY. Before we get to Mr. Morgenthau and his request to you, can you describe for me some of the things that were frightening your wife that you told me about last night?

Mr. RAHMAN. Well, the only direct physical threat was made to me just as I was leaving by another executive of the bank, Mr. Abbas—Mazhar Abbas, M-a-z-h-a-r A-b-b-a-s—who was in a meeting with me, and Mr. Iqbal Chaudhry who was the new CEO after all this crisis, and I was pleading with Mr. Iqbal Chaudhry and Mr. Mazhar Abbas, who are both junior to me effectively in the bank, that why are you sacking so many good executives when the people who are named are still in the bank, who have been identified by Price Waterhouse, and by my committee?

They are still in the bank, and if, indeed, you are sacking all of the other good executives, why are you not paying them compensation? So this line of argument went on and finally I told them that if you force such people who have given their life to the bank to just go and become jobless and with no money to eat grass, then they may turn to any situation. They may go to court and they can fight you from the court, and Mr. Abbas said well, they can go to hell. They can go to court if they like.

So I said, if you carry on like that, I myself may have to join them, and the moment I said that he became furious and he said that, let me tell you openly, in front of Mr. Chaudhry that if you open your mouth, or if you go to court, I've personally killed people in my life in Multan in Pakistan, and I'll use the same gun on you.

Now, he was so junior to me I didn't even take it seriously. I thought it was a funny thing to tell me, so I told him off. I said, you haven't even contributed one bit to the growth of the bank. What are you talking about?

So I just ignored him, but it stayed with me, but after I left, several of my friends and ex-colleagues were bringing information that people from Abu Dhabi, that people from BCC who were named in this report, have said that my life is not worth the paper it's written on, and again I ignored all of this, because, as I said, I don't worry about these things.

But more recently my lawyers, who have charged a lot of money for just getting nothing for me, suddenly began to change their tune and they started to suggest to me that I should agree with the liquidator to keep quiet.

I said, this injunction which was brought by the criminal bank, by the criminal people have all been exposed, so how can I continue to have an injunction thrust on me after new management is supposed to be there, liquidator is supposed to be there, Bank of England is supposed to be there, and they had no real answer, and

they said well, apparently Sheikh Zayed will not give money if you talk, and we need his money because so many millions have suffered, and that is a very powerful argument, because I had helped in building the better part of the bank, and we will discuss that also later on, and thousands of people were employed—14,000 people employed from 83 nationalities.

They were good people, and you will see when we go through this deposition that not more than 20 people were involved in all that you are hearing about, and yet thousands of people have suffered both as employees and over 1 million people have suffered as customers, who are very loyal, good customers. They were not illegal customers, all of them.

So when this argument was given I was a bit confused as to really, is it correct that Sheikh Zayed would not give any more money if I talked, but at the same time the press in U.K. started naming me, and some of them started naming me as the whistle-blower, and even my picture came in the press, and I am not a whistle-blower in any capacity.

I was a chief finance officer. I happened to be chairman of the investigation committee to which the board appointed me. I happened to write an honest report. I happened to resign, and I've suffered for that, but I am not a whistle-blower and I am not the destroyer of thousands of peoples' lives.

But when this happened, information came to me that even clients who have lost all their savings, innocent people, any one of them could come for me any time. So I needed a vehicle through which I could explain all that I have to explain, and the British Government and the British judiciary was refusing me this right, and they would not even explain why everybody could talk what they liked—all the press could investigate and write what they wanted, and I am a key central figure about the reports, and I am not able to talk on some pretension.

So I argued with my own lawyers and I said, you fight back for the injunction. You fight back. He said, you haven't paid for all your fees up to now, and this will cost extra and you'll never win. Anyway, we fought back again, and I was horrified to hear that the Lord Chancellor himself had instructed the judge that my injunction should continue.

Now, I don't know why I'm so important. I'm a British subject. I have my own rights. Why the Lord Chancellor should instruct the court to injunct me from speaking horrified me, and my own lawyers were suggesting that after all my life is ruined.

I have no job. I have my house, which was a part of my salary package, was about to be taken. They told me in so many words that it will take 3 days for the Government to take the house back once you start talking.

Senator KERRY. Who told you that?

Mr. RAHMAN. Sorry?

Senator KERRY. Who told you that?

Mr. RAHMAN. My own lawyers, that it will take less than 3 days for you to lose your house as soon as you——

Senator KERRY. You lost your house at some point?

Mr. RAHMAN. Not yet, but it may be happening now.

Senator KERRY. But didn't you take a choice? You sold the house and moved into London?

Mr. RAHMAN. No. What had happened is that we had a bigger house in Surrey, in the better days, I should say.

Senator KERRY. That was the house paid for by the bank?

Mr. RAHMAN. All, yes. What the bank had, which was a scheme which I myself helped evolve, is that because the senior founder executives were always moving, traveling, working weekends, our families were suffering and since we were deemed to be also shareholders of the bank, which we will explain later on, I recommended to the president and others that we should at least have a home sort of bequested to us as sort of advance compensation toward the share value which is building up rapidly, so that at least the family whom you are never seeing could at least have a roof over their head if anything happened.

That scheme was approved. And that scheme is all in writing and we are required never to pay back the loan as long as we worked for BCC. Effectively, because we always expected to live and die with BCC, it was never repayable. And whatever token interest was charged, which was a small amount, 5 percent, was also given to us as an allowance to be deducted. So effectively, it was a part of our salary package for which we were working these long hours.

And within days of this injunction matter, they moved on me and nobody else for foreclosure of the house. Nobody else has had their property foreclosed. But they instantly moved on me. I am fighting that. But my own lawyers are telling me that the day you open your mouth, 3 days within that, the house will go.

Senator KERRY. Now Mr. Rahman, I just want to finish on the personal aspects of this before we move back into the history.

I understood from your wife, Ellen, that there were nights when you were not there, that cars would come into the driveway and simply turn off the engine and sit there. Then they would turn on the engine and drive out. Is that accurate?

Mr. RAHMAN. Yes. She told me several times.

And that is one of the reasons I told her to leave. I don't know if they were press people. I don't know if they were somebody from BCC. But I wasn't going to take any further risk because it's a very, very quiet part of Surrey that we live in. It's a very, very—hardly any houses. It's a wooded area. So we felt that we can't take any further risk and we just sent the family away.

Senator KERRY. Did you receive some phone calls or did she receive phone calls?

Mr. RAHMAN. She received some she told me about, I have not received any, where people just tried to find out where I was or didn't say anything and just cut off.

Senator KERRY. It is my understanding that on one occasion she received a phone call in which she was told that you had had a terrible accident and would not be—is that accurate?

Mr. RAHMAN. Yes, she told me. When I came back she was crying and she told me about this. I said, look, if anything happens, somebody you know will tell you rather than an unknown person, so please don't get disturbed by unknown people talking like that.

Senator KERRY. And on another occasion was she telephoned and told that you were going to be killed and that your life was not worth very much?

Mr. RAHMAN. That, I mean, a lot of people were saying that. A lot of people were saying this to me, obviously to me and to her, friends who meant well. But you know it's incredible how you can sit over here knowing that you're the only one who knows about the report and you did all this.

Senator KERRY. And finally she told me that there was one occasion, the breaking point was when a telephone call came regarding the children. Is that accurate?

Mr. RAHMAN. She told me, also. That's why we were afraid that, you know, going to school was also very dangerous. So I just pulled them off school.

Senator KERRY. And what was that phone call, do you recall?

Mr. RAHMAN. I can't remember the details, but it was in this nature, that the children are at risk.

Senator KERRY. And that is when you decided she should leave the country?

Mr. RAHMAN. Yes, I decided that she should leave. Of course, she did not want to leave, leaving me behind. And I said, look, I cannot start running because running is a one-way traffic. You know, you start running and then you don't stop running. So I was not going to do that until just last week.

And last week, as I started to explain, my fear limit went up because an ordinary depositor has suffered, then any one of them could be violent. My pictures had come openly in the press. The Independent, Daily Independent, had covered an article saying that Mr. Rahman has fled for his life and there's a killer on the loose. I don't know whether they just make up the stories or it sounds good. And that's how it was.

So I decided that it's best not to confront everybody, just to leave.

Senator KERRY. Now Mr. Rahman, because today you are going to, as you tell this story, refer to some documents. I am going to put those documents into the record now so they are a matter of public record.

Let me just quickly identify them. Document No. 1 is an interim report by Price Waterhouse on the audit for 1989. And it is a report dated November 17, 1989, which was the precursor to the final audit report coming in. And that is document No. 1.

[The information referred to follows:]

Southwark Towers
32 London Bridge Street
London SE1 9SY

Telephone 01 407 8989
Telex: 884057-8
Telecopier 01-378 0647

Price Waterhouse

17 November 1989

The Board of Directors
BCCI Holdings (Luxembourg) SA
39 Boulevard Royal
Luxembourg

Dear Sirs,

INTERIM REPORT ON RESULTS AND OPERATIONS

At your request we have compiled a brief report on the results and operations covering the nine months to 30 September 1989. We understand that this information is required for submission to the Institut Monetaire Luxembourgeois, the Bank of England and the other banking supervisory authorities comprising the College of Supervisors.

This report is based on unaudited information which has been provided to us by management and from our colleagues in other offices who have recently completed interim audit work at major locations. Such work comprised testing of systems and controls and preliminary credit reviews at major locations throughout the Group; further details of the audit scope are set out in Appendix 1 to this report. Our review of the loan portfolio is continuing with a view to reaching agreement on the levels of provisions required at an early stage, although the number of issues to be resolved may cause a delay in the normal reporting timetable.

The contents of this report have been discussed with Group management and their comments incorporated as appropriate. We have also had discussions with the Audit Committee about the matters raised in this report.

The report has been prepared to provide an understanding of the Group's results and operations to those concerned with its consolidated supervision. It should not be released to other parties without our specific permission in writing.

We wish to express our appreciation of the courtesy and co-operation extended to us by management and staff of the Group during the course of our work.

Yours faithfully,

PRICE WATERHOUSE

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

CONTENTS

SECTION		PAGE
1	Unaudited results to 30 September 1989 and outlook for the year	1-2
2	Audit and Accounting Issues	3-4
3	Credit	5-9
4	Treasury Operations	10-13
5	Capital	14-15
6	Taxation	16
7	Regulatory, Compliance and Control Issues	17-19

APPENDICES	
Audit scope	1
Unaudited results for the 9 months ended 30 September 1989	2
Results by major location for the 9 months ended 30 September 1989	3
Country risk provisions at 30 September 1989	4
Funded facilities over $50 million at 30 September 1989	5
Provisions by location	6
Executive summary of selected International Loans	7

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 1: UNAUDITED RESULTS TO 30 SEPTEMBER 1989 AND OUTLOOK FOR THE YEAR

Unaudited Results to 30 September 1989

1 The unaudited results of the Group for the nine months ended 30 September 1989 are summarised below. Although we have reviewed the aggregation of the Group results and made limited enquiries of Group management we have not audited these results.

2 From our work and that of local auditors we appreciate that closing procedures at 30 September are not as stringent as at the year end, and adjustments are likely to be required in the following areas, which could significantly reduce reported net profit:

- Loan loss provisions
- Increased country risk provisions

3 In addition the application of full year end procedures in two further areas could result in further adjustments:

- Reconciliation of inter-group balances
- Taxation

	$ million	
	Unaudited 9 months ended 30 September 1989	Audited Year ended 31 December 1988
Net interest income	265	399
Other operating income	312	377
Operating expenses	(427)	(584)
Profit before loan loss provision	150	192
Loan loss provision	(70)	(145)
Profit before taxation	80	47
Taxation	(57)	(74)
Profit/(loss) after taxation	23	(27)
Outside shareholders' interests	(14)	(22)
Profit/(loss) attributable to shareholders	9	(49)

4 The full unaudited results for the nine months and the Statement of Condition at 30 September 1989 are summarised in Appendix 2.

SECTION 1: UNAUDITED RESULTS TO 30 SEPTEMBER 1989 AND OUTLOOK FOR THE YEAR

Salient features of the results to date

5 Overall the bank has performed reasonably over the past year considering the significant repercussions that could have resulted from the US indictment. The Group has continued to remain relatively liquid and also attract some new business. Management have informed us that of the 73 countries where BCC operates 46 have shown improved results since 1988 and 8 more have improved results in local currency terms. Initiatives are being started in a number of areas such as credit cards and "one-off" deals, which the bank hopes will further contribute to profits.

6 The net interest income margin has dropped because fixed interest income currently earned on long bonds and certificates of deposit is funded by variable rate deposits, the cost of which has risen in line with the rise in interest rates and is also affected by the Group's difficulty in attracting low cost US dollar deposits.

7 Other operating income of $312 million for the period to date is 10% higher than last year principally in the UK where there have been a number of short term property related transactions which have contributed over $10 million.

8 Operating expenses have been held in check and totalled $427 million, which is in line with last year.

9 The results for major locations for the nine months are summarised in Appendix 3.

Outlook for the year

10 Senior management are anticipating an improvement in the results in the fourth quarter in order to report operating profits for the year of between $220 - $240 million (1988 - $192 million) against unaudited operating profit to date of $150 millon.

11 In the past the Group has not been able to meet its forecasts, in part due to special external factors. Management's estimate of $220 - $240 million for the year is reliant upon historically better fourth quarter operating results and "one-off" deals each generating in the region of $1-2 million in profits contributing approximately $10 million in the last quarter. Such deals are, we understand, being pursued vigorously during the remainder of the year and some have already been identified.

12 Management's estimate for loan loss provisions is $100 million, (1988 - $145 million), including approximately $11 million for sovereign risk, and for taxation, $75 million (1988 - $74 million), giving a forecast profit after tax of $45 million.

13 We believe, however, that additional specific and country risk provisions are likely.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 2: AUDIT AND ACCOUNTING ISSUES

Inter-branch/affiliate balances

14 At 30 September 1989 a net debit balance of $39 million (1988 under $20 million) has been included in the balance sheet under the heading 'Due from banks'. The balance arises from the cancelling out of inter-branch and inter-affiliate balances resulting in an unreconciled difference, including in-transit transactions. Whilst we appreciate the volume of inter-branch/ inter-affiliate transactions we strongly recommend the bank carries out a full inter-branch and inter-affiliate balance confirmation and reconciliation procedure as at 30 November 1989 in order to investigate and fully reconcile the outstanding entries before the year end.

Accounting for interest, fee and commission income

15 At periodic intervals the Group debits significant amounts of penalty interest, management commitment and advisory fees and other charges to customers' loan accounts.

16 These charges are not always in accordance with the terms of the loan agreement with the customers. In the past we have noted that certain customers have rejected the charges and we are concerned that, particularly in respect of the International Loans, the charges are often rolled up into the loan balance. We recommend that the Group should only recognise such income when the charges are agreed in writing and are substantially recovered by the end of the relevant accounting period in which the charges are made.

17 Whilst the bank as a policy suspends interest on all Identified Risk Facilities which it believes requires specific provision, we have expressed concern, in the past, over the Group's policy for the suspension of interest on other "non-performing loans". We continue to note that certain of the Group's operating units take an optimistic view of the recoverability of interest for accounts that are failing to meet interest or principal repayment schedules, and clearer guidance is required in this area.

Accounting for Commission and other income

18 Whilst its volume of trade related business has continued to increase, UK region, in developing new business areas, has also entered into certain short-term property related agreements with customers whereby BCCI assists in the funding and arrangement of property purchases and provides administrative assistance in any refurbishment/redevelopment and subsequent sale of the property. In return BCCI receives either a fixed minimum commission or part of the profit on the sale.

SECTION 2: AUDIT AND ACCOUNTING ISSUES

19 The accounting policy adopted on these arrangements places considerable emphasis on management's judgement rather than a formal, measurable basis. In particular we note that at 30 September 1989 UK Region had credited commission of some $3.4 million to profit and loss in respect of underlying transactions that had not been completed until after that date.

20 Management has confirmed that for the 1989 accounts, the bank will adopt an acceptably prudent accounting policy for "one-off" deals such that front-end fees and profits are recognised either on completion or over the life of the transaction, as appropriate.

Valuation of trading securities

21 The Group's policy is to value securities held for trading purposes at market value, while investments in securities which are intended to be held until maturity are carried at cost. There are one or two instances where this policy is not being strictly applied.

EEC Seventh Directive

22 The EEC Seventh Directive is being implemented in 1989. This has potentially significant implications for the financial statements for Holdings and SA both being Luxembourg registered companies. Whilst the majority of the Seventh Directive is concerned with Group accounts and consolidation procedures to which the Group already adheres, the Directive prohibits asset revaluations. It is expected that the Directive will be applicable to banks in 1991.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 3: CREDIT

Scope of Work

23 Our work to date has comprised a review at major locations only and has focused on the identification and recoverability of doubtful loans. The review of loans booked in more than one location (which we call International Loans) has been coordinated centrally.

24 This work has been completed in a number of territories but there are still major issues to be resolved in some territories and in respect of certain International Loans.

Major loans

25 At 30 September 1989 the concentration of lending to customer groups whose exposure exceeds 10% of the capital fund of the group totalled $1.9 billion, an increase of $296 million since 31 December 1988, as set out below and in more detail in Appendix 7:

	Total funded Exposure ($ million)	
	30 September 1989	31 December 1988
CCAH related loans (paragraph 28)	854	689
Customer A	404	349
Customer E	260	194
Customer C (excluding CCAH related)	197	188
Customer F	187	186
	1,902	1,606

26 In our previous report we expressed concern about the high concentration of lending to a small number of individual counterparties. This has continued in the nine months to 30 September principally through the application of interest and charges. Management has initiated negotiations with these customers to agree reduction programmes and significant repayments are anticipated before 31 December 1989 and in early 1990.

27 For customers C and E management have informed us that their priority is to reduce the clean exposures (which both currently exceed $100 million) and to ensure that interest and charges are serviced. For customer A management are considering a reduction programme, details of which are provided in Appendix 7.

SECTION 3: CREDIT

CCAH

	$'million
28 The CCAH related lending may be analysed as follows:	
Loans to major customers	782
CCAH Share Subscription Account	52
CCAH Debenture	20
	854

29 The Group has provided advances to a group of customers (including customers B,C,G,L,N and O) which are secured on approximately 39% of the shares of CCAH, the holding company of First American Bankshares Inc, a major regional banking group in the Eastern United States with banking licences to operate in six separate states. The principal shareholders of CCAH are also shareholders of BCCI.

30 The loans to these customers have increased by $113 million since 31 December 1988 as a result of interest and charges being applied. Some $41 million has been repaid during 1989 but this has been offset by new drawdowns of $42 million.

31 On 18 July 1989 CCAH had a rights issue and the Group advanced $52 million to a share subscription account. The allocation of this loan between CCAH shareholders has yet to be established.

32 We understand that BCC management are presently advising the shareholders in connection with the sale of the shares of CCAH and that further developments in this regard may be expected before the end of the year.

33 At 30 September 1989 the bank held approximately 106,400 CCAH shares as security (before allocation of the rights issue). These shares had a net asset value per share of $2,868 based upon the unaudited management accounts at 30 June 1989. This implies that the multiple of net asset values required to cover the existing loans (excluding the rights issue loans) is 2.57 times. We understand that the median multiple of net assets applicable to bank share transactions in the United States since 1981 is in the region of 2.1 times. This implies that a shortfall on the sale of the shares could be of the order of $140 million which may not be fully recoverable from the shareholders.

34 Management are expecting repayments before 31 December 1989 which should reduce this shortfall.

SECTION 3: CREDIT

Limit Excesses

35 At 30 September 1989 the following loans had funded balances which were over $25 million in excess of approved limits.

Borrowers Name	$ million		
	Funded Balance at 30 September 1989	Funded Limit	Excess
Customer A	404	255	149
Customer E	260	180	80
Customer C	315	265	50
Customer B	178	140	38
Customer L	115	85	30

36 We understand that the Board is currently reviewing these limits and these loans should be brought within their revised limits before 31 December 1989.

PROVISIONS

Specific Provisions

37 The major locations which have reported as at 30 September 1989 have provided estimates of the 1989 loan loss provision charge. These estimates are set out in Appendix 6 and indicate a provision requirement for those territories that have reported of $67.5 million compared with a forecast prepared by management of $48 million. This does not include the provision requirements for five locations who have been unable to finalise the provision at this stage for which management's estimates are $13.2 million.

38 We are also concerned about the recoverability of certain International Loans, particularly those which have not yet met interest or principal repayment schedules and certain risk facilities booked in Grand Cayman for which provisions have yet to be agreed. A full list of these loans has been provided to management and we have requested additional information in respect of these accounts. We expect to see evidence of performance and compliance with repayment programmes, if we are to accept their inclusion in the 1989 accounts without provision.

39 The auditors of National Bank of Oman have identified a significant number of accounts which are not meeting interest or principal repayments and for which provision may well be required.

SECTION 3: CREDIT

Country Risk

40 A summary of the Group's cross border exposure to lesser developed countries against which provision is required is summarised below and set out in more detail in Appendix 4:

	Exposure at risk ($ million)	
	30 September 1989	31 December 1988
Nigeria	247	261
Phillipines	30	30
Zambia	26	29
Sudan	20	25
Others	26	26
	349	371
Provision	100	100

41 In 1988 after discussions with the regulators provision for country risk exposures was made using the Bank of England matrix as a guideline and taking into account special circumstances relating to BCCI's exposure. The matrix is unchanged from 31 December 1988 although a revised matrix requiring higher provision is expected to be published by the Bank of England before the end of the year. The exact impact on individual countries is not yet known although the Bank has indicated to BCCI at the College meeting that on major exposures, for example Nigeria, it expects the bank to provide at a higher level.

42 We have undertaken preliminary calculations of the provisions at 31 December 1989 which shows an additional provision requirement of at least $20 million in 1989 against which management expect to provide $11 million. A summary of the Group's exposures together with existing and proposed additional provisions is included in Appendix 4.

General Provision

43 At the last meeting of the College of Banking Supervisors, management reaffirmed their commitment to build-up the general provision over a period of time to at least 1% of gross advances, as adjusted for facilities covered by cash collateral or specific provisions.

44 At 31 December 1988 the general provision amounted to 0.6%. To increase this to 1% at 30 September 1989 would require a charge against profits in excess of $35 million. Management on the other hand has indicated that they will only increase this provision by some $10-12 million (ie to 0.75%) with additional provisions in 1990/91 to reach the 1%.

SECTION 3: CREDIT

Control issues

45 Whilst there has been some improvement in credit procedures we still note the need for more stringent controls over the Group's loan appraisal and authorisation procedures. We have noted examples of some new loans totalling $52 million where appropriate documentation supporting the lending is not available or where Central Credit Committee or Board approval procedures have not been complied with.

46 We are currently assisting management in a review of the credit management function carried out by the Central Credit Division.

Conclusion

47 Management have made considerable efforts to provide us with background information on the International Loans during 1989 which we are still evaluating. We remain concerned about the adequacy of provisions held against accounts which are not meeting principal and interest repayment schedules.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 4: TREASURY OPERATIONS

Results

48 The activity levels in Central Treasury have generally shown small increases over 1988 although volumes still remain relatively low when measured on a number of deals per day basis and many of the limits are unutilised. The main features of the current year's trading have been:

- a greater emphasis on the Japanese securities markets, particularly the Japanese equity markets. Trading in these markets is undertaken by a newly formed team within Central Treasury who work closely with Nomura and other large securities houses in order to formulate investment strategies;
- a small increase in activity in US stocks and the associated derivative products;
- increased activity in the foreign exchange markets (including futures and options);
- lower activity in the US Treasury markets.

49 Whilst the trading results show a considerable improvement over last year, the investment and liquidity management results reflect the costs to the Group of maintaining a relatively high level of liquidity.

50 Based upon our estimates of average investments/borrowings and interest yields/costs the results of Central Treasury may be estimated as follows:

		$ million
	9 months to 30 September 1989	Year to 31 December 1988
Trading activity		
Activities undertaken by Central Treasury	4.2	(7.5)
Externally managed funds	2.1	(3.7)
	6.3	(11.2)
Liquidity management and investment		
Net profit/(loss) on liquidity management and investment activities	(14.9)	6.9
Loss before local overheads	(8.6)	(4.3)
Local overheads	(3.6)	(5.9)
Management charge by BCC SA	(0.5)	(0.5)
Loss before intra group subsidy *	(12.7)	(10.7)

* The above figures exclude the effects of paying a 1% margin over LIBOR on funds deposited by Group Companies, the effect of which is estimated to be an additional cost of $26 million (year to 31 December 1988 - $40 million). We understand that this margin has been reduced to ½% over LIBOR from 1 October 1989.

SECTION 4: TREASURY OPERATIONS

Accounting records

51 It should be noted that the foregoing figures are only estimates based on average balance assumptions since the actual results of Central Treasury are contained within the accounting records of Grand Cayman branch. Given the organisational structure of Central Treasury including its reporting lines to the Treasury Committee and its integral role in the management of the Group's liquidity, we continue to believe that it is vital that the results of Central Treasury activities be reported separately. We are advised that arrangements have since been established for Central Treasury to become a separate self-accounting unit by the year end.

Utilisation of funds

52 The source and utilisation of funds by Central Treasury as at 30 September 1989 may be summarised as follows:

		$ million
	30 September 1989	31 December 1988
Sources		
Banks	242	330
Branches and affiliates	3,768	2,887
Non-banking financial institutions	450	650
Repo funds	1,097	719
Currency Swaps	330	227
	5,887	4,813
Utilisation		
Due from banks	1,063	1,028
Certificates of deposit	683	353
Total funds with banks	1,746	1,381
Due from branches, affiliates and NBFIs	511	510
Trading portfolio	178	143
Investment portfolio	669	691
Externally advised and managed funds	131	125
Currency Swaps	330	249
	3,565	3,099
Funds provided to Grand Cayman for banking and treasury activities	2,129	1,515
GNMA/FNMA funding	193	199
	5,887	4,813

SECTION 4: TREASURY OPERATIONS

53 It should be noted that the results shown earlier were based only on funds managed directly by Central Treasury and hence excluded the funds provided to Grand Cayman and the GNMA/FNMA funding. The results are therefore based on total funds of $3,565 million (1988 - $3,099 million).

54 The investment portfolio comprises US treasury bonds and other securities which the Group intends to hold to maturity. Such investments are carried at cost and any premiums or discounts are amortised over the period remaining to maturity. The market value of the portfolio at 30 September 1989 was $62 million (31 December 1988 - $93 million) below cost. The Group continues to be exposed to significant interest rate risk arising from those investments in long dated instruments which were acquired in 1985/86 and continue to be funded by short term deposits, although there has been a reduction in the exposure.

55 The above analysis also demonstrates that the trading portfolio represents only 5% of the $3,565 million of funds managed by Central Treasury and hence this activity can be viewed as being totally separate from the investment and liquidity management activity which utilises the majority of excess funds placed with Central Treasury.

Risk management issues

56 In our reports to the Audit Committee in November 1988 and March 1989 we recommended that the Group should develop a formal interest rate risk policy together with the relevant limits and interest rate gap position, as a matter of priority.

57 We understand that Central Treasury has recently purchased an asset and liability management software system "Sendaro" which, once operational, will be used as a limit system for managing interest rate risk. However until such time as the system is implemented the Group remains exposed to interest rate risk.

Reorganisation of the Group Treasury function

58 Throughout 1989, the Group has been developing a strategy for the reorganisation of the Group Treasury function and in connection with this two papers have been submitted to the Bank of England giving details of the proposed new structure. The initial paper dated June 1989 set out a structure based on three 'flagship' dealing rooms to be located in London, New York and Tokyo. The first step in this strategy is to enhance the capability of the existing London dealing room.

59 The second paper dated September 1989 added a fourth flagship dealing room to be located in Abu Dhabi and gave further high level comments on aspects of the enhancement of the existing London dealing room.

60 Whilst these papers evidence a certain amount of progress towards the restructuring of the Group Treasury function, progress continues to be slow with certain elements of the strategy still awaiting approval from regulatory authorities. No implementation date can be reliably predicted at present for other parts of the new strategy beyond the UK upgrading already in hand.

SECTION 4: TREASURY OPERATIONS

61 It should be noted that in connection with the above approximately $250 million of surplus funds generated by the UK region and previously managed by the existing Central Treasury are now managed by the UK region themselves via their London dealing room. The majority of these funds are placed on overnight deposit.

62 The bank held a meeting with the Bank of England in October 1989 at which it discussed its programme for setting up a UK Treasury operation and in particular whether the Bank of England would permit BCCI to "pool" its group funds or merely restrict operations to UK originated funds.

Other Treasury Operations

BCC (Emirates)

63 Losses of approximately $1.2 million have been incurred in trading options and futures contracts. We understand that management intend to prohibit any new overnight positions from being taken.

UK Region

64 UK region have one interest rate swap with Hammersmith Borough Council. On 1 November 1989 the UK courts declared illegal all swaps entered into by Hammersmith. It appears likely at present that this decision will be challenged in a higher court. The replacement of this swap would currently cost approximately $0.6 million. In addition $0.2 million of accrued interest has also been credited to the profit and loss account.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 5: CAPITAL

65 The capital fund shown by the unaudited accounts at 30 September 1989 amounted to $1,513 million, an increase of $96 million since 31 December 1988 made up as follows:

			$million
	30 Sept 1989	31 Dec 1988	Change
Share Capital	745	726	19
Reserves	197	160	37
	942	886	56
Subordinated capital notes	437	412	25
Outside shareholders interests	134	119	15
	1,513	1,417	96

66 There was an increase in capital of $100 million in April 1989 which largely accounts for the change since 31 December 1988.

67 Included within the caption of subordinated capital notes are Convertible Capital Notes of $330 million which mature on 30 June 1991 unless converted into Ordinary shares before then at $40 per share. In the current circumstances we believe there must be some doubt that the conversion will take place.

Transactions with shareholders

68 Based upon information provided by major locations, loans to and deposits from shareholders at 30 September 1989 and 31 December 1988 are set out below:

		$ million
	30 September 1989	31 December 1988
Loans	1,146	1,137
Deposits	836	1,212

69 As noted in our previous report ICIC has provided loans to shareholders, including ICIC Foundation and ICIC Staff Benefit Fund, secured on BCCI shares.

SECTION 5: CAPITAL

Capital Adequacy

70 Information on the capital assets ratio at 30 September together with the risk adjusted capital ratio at that date is set out below:

	$ million	
	30 September 1989	31 December 1988
Total Assets	21,503	20,637
Capital Fund	1,513	1,417
Approximate risk adjusted assets	14,800	14,400
Approximate adjusted capital	1,270	1,312

	30 September 1989	31 December 1988*
Capital/Total assets	7.0%	7.4%
Capital/Risk adjusted assets **	8.5%	9.1%

* adjusted for increase in capital of $100 million in April 1989.

** The capital/risk adjusted assets ratios would be 10.1% and 10.2% respectively on the basis that the capital notes maturing in 1991 are converted into equity capital.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 6: TAXATION

Income statement charge

71 The tax charge for the period is high because:

- No tax relief is available on losses of $12 million and $39 million arising in BCCI Holdings and the Grand Cayman branch of BCCI (Overseas) respectively.
- The group continues to earn significant profits in high tax areas such as Pakistan, India, Bangladesh and Zambia.

Enquiry by UK Inland Revenue

72 The Inland Revenue Special Investigation Section enquiry has continued to progress slowly although we understand that on the bank's part all requested information has been provided. It now seems unlikely that the outstanding queries will have been resolved before the accounts for the year are required to be finalised although management have expressed their intention to try to reach agreement as soon as possible and accordingly has sought a direct meeting with the Inland Revenue.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 7: REGULATORY, COMPLIANCE AND CONTROL ISSUES

US Litigation

73 The bank's defence lawyers have informed us that the Florida trial is expected to begin on 15 January 1990 and last for three to six months. The lawyers will attempt to come to a pre-trial settlement with the prosecution, but the lawyers do not expect the prosecution to be amenable. As such there is now a real prospect of a trial.

Compliance Issues

74 As a result of inspections carried out by Federal and State Regulators in the USA at the end of 1988 the bank signed in June 1989 Memoranda of Understanding ("MOU") with the Federal Reserve Bank under which it agreed to:

- Desist from violating the Bank Secrecy Act ("BSA") and related regulations
- Develop policies and procedures to cover:
  - BSA compliance
  - Detection of suspicious activity related to the flow of funds and acceptance of deposits
  - Establishment and evaluation of loan loss reserves
  - Strengthening internal controls
- Prepare and submit progress reports detailing the action taken in respect of the foregoing.

75 The bank has made great efforts to comply with the MOU particularly in developing the policies and procedures manuals, with assistance from Price Waterhouse US, which have been submitted before the due dates.

76 In response to the MOU the US Agencies have undertaken to accept funds from overseas locations of BCCI only when there is a clear indication of the source of those funds and a form is completed by the transferor with details. We understand that there has been a noticeable drop in the funds transferred from other BCCI locations to the US agencies because of this onerous requirement to obtain the necessary details from their customers. Most of their US dollar transactions formerly with the US agencies are being routed to third party banks. Management are investigating this matter to satisfy themselves that there is nothing untoward in such transactions.

SECTION 7: REGULATORY, COMPLIANCE AND CONTROL ISSUES

77 Whilst the Federal Regulators have yet to formally endorse the manuals the bank has started implementing the revised procedures to demonstrate compliance with best banking practice in the US. It is anticipated that the manuals will be adapted and implemented in other countries in due course.

78 Federal Regulators commenced inspections at each of the US Agencies on 23 October 1989, the results of these inspections are yet to be determined.

Due Diligence Reviews

79 The programme of due diligence reviews which started earlier in the year has continued at the locations which are the subject of the indictment and is being extended to Cayman, Hong Kong, Gibraltar and the Isle of Man. Reviews are also to be conducted in Canada and Spain. As a result of the reviews a number of suspicious accounts have been reported to the authorities and other accounts have been closed.

Internal Controls Group

80 We are pleased to acknowledge the formation of a special group responsible for the implementation of internal control recommendations, within the Central Audit Division, the 'Internal Controls Group', and we look forward to working closely with this group in achieving the required internal control improvements throughout the bank.

81 The Internal Controls Group are concentrating their initial efforts on the three major units - Hong Kong, Kenya and Cayman - highlighted in 1988 as having major issues yet to be resolved. Our local auditors in Kenya have been pleased to note very significant improvements in controls and those in Hong Kong also noted some improvements.

Internal Controls review

82 Despite the many improvements at operating unit level we would emphasise that several of the major matters arising from our review of internal controls during 1988 had Group wide applicability and will require central management direction and commitment to change if the required level of improvement is to be realised. This is especially so in relation to management structure, credit, treasury and systems. We recognise that there now appears to be significant management commitment to improvement of controls and appreciate it will take time to implement fully.

SECTION 7: REGULATORY, COMPLIANCE AND CONTROL ISSUES

Computer systems

83 Computer audit specialists from our central audit team have continued to review centrally, updates to the Falcon, Mini Falcon and Autodeal systems which are utilised by operating units. Our reviews confirmed that these systems continue to provide reasonable controls over the authorisation, accuracy and completeness of data. We are pleased to report that recommendations to address control weaknesses identified in the course of our reviews have generally been addressed by the bank. There remain, however, two major outstanding areas:

- disaster recovery and back-up procedures. The bank is seriously exposed as a result of the absence of alternative computer facilities, and a detailed plan which could be implemented in the event of a major loss of facilities.

- data transmissions between locations are not encrypted which could result in confidential data being read by unauthorised individuals. Management have informed us that they are considering the installation of modems with encryption facilities.

APPENDIX 1

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

AUDIT SCOPE

As with last year, the 1989 audit of BCCI Holdings (Luxembourg) SA has been conducted under the supervision of partners and staff from Price Waterhouse London.

We have continued with our practice adopted last year of grouping reporting units into three categories for the purpose of specifying the level of audit work for Group reporting purposes at each operating unit.

		Number of locations
Type 1 :	Full scope audit with defined materiality limits	25
Type 2 :	Limited audit	27
Type 3 :	Statutory/Regulatory audit	20
		72

Instructions to local auditors

Detailed audit instructions were issued to local auditors for the audits of locations specified as Type 1 or Type 2 audit scopes.

Type 1: Full scope audit with defined materiality limits

Local auditors were required to carry out an interim audit visit and report to Price Waterhouse London by end October 1989 on their operating units:

(1) Credit facilities as at 30 September 1989

(2) System of accounting and internal control with specific emphasis this year on the status of implementation of previous years external auditors' recommendations for improvement.

The local auditors are required to report to us by end January 1990 on their operating unit's results for the year ending 31 December 1989. The materiality limits we have advised to them when considering possible adjustments to the group results are as follows:

Adjustments affecting asset and liability reclassifications	$5,000,000
Adjustments affecting income and expenditure reclassifications	$500,000
Adjustments in aggregate affecting profit after taxation	$250,000

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

AUDIT SCOPE

- Type 2: Limited audit

Local auditors are required to carry out specified procedures to enable them to report to us by end January 1990. The specified procedures they are required to carry out in respect of their operating units are as follows:

(1) An analytical review of the financial position at 31 December 1989 and the results for the year.

(2) A review of the accounting policies adopted in the preparation of the accounting statements to identify and quantify any deviations from group policies.

(3) A review of the recoverability of credit facilities.

(4) A review of specific elements of the system of accounting and internal control with specific emphasis on the status of implementation of previous years external auditors' recommendations for improvement.

In reporting to us, the local auditors of Type 2 locations need only consider potential adjustments within the materiality limits specified for Type 1 locations.

- Type 3: Statutory/Regulatory audit

No group audit requirement has been specified for auditors of Type 3 locations although local auditors have been requested to advise us of any significant matters which they feel should be brought to our attention.

Central audit team

In addition to the audit work at operating unit level we have also specified that certain audit work and co-ordination responsibilities be carried out by the central audit team based in Price Waterhouse London.

The responsibilities of the central audit team comprise, inter alia:

- a review of major International Loan facilities operated on a Group wide basis;
- an audit of the central treasury operations in Abu Dhabi which form part of the results of BCCI (Overseas) - Grand Cayman;
- an audit of the consolidated financial statements of BCCI (Holdings) including the aggregation of the individual branches of BCCI SA and BCCI (Overseas);
- a review of the computer systems developed centrally but operated locally.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

AUDIT SCOPE

Overseas visits

In order to obtain first hand a current understanding of the operations and local economic environment staff from the central audit team and other Price Waterhouse offices have visited or are due to visit certain countries and operating units as follows:

Grand Cayman
Cameroon
Djibouti
Egypt
Hong Kong
Kenya
Nigeria
Pakistan
Sudan
Thailand
USA

APPENDIX 2

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

UNAUDITED RESULTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 1989

Consolidated Statement of Earnings

	$ million	
	Unaudited 9 months ended 30 September 1989	Audited Year ended 31 December 1988
Interest income	1,558	1,892
Interest expense	(1,293)	(1,493)
Net interest income	265	399
Other operating income	312	377
Total income	577	776
Operating expenses	(427)	(584)
Net operating profit	150	192
Loan loss provision	(70)	(145)
Profit before taxation	80	47
Taxation	(57)	(74)
Profit/(loss) after taxation	23	(27)
Minority interests	(14)	(22)
Profit/(loss) attributable to shareholders	9	(49)
Movements on reserves		
Balance brought forward	110	207
Profit/(loss) for period	9	(49)
Premium on issue of shares	56	-
Exchange translation and other reserve movements	(27)	(36)
Appropriations	-	(12)
Balance carried forward	148	110

APPENDIX 2
(Page 2)

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

Unaudited Consolidated Statement of Condition at 30 September 1989

	Unaudited 30 September 1989	$ million Audited 31 December 1988
ASSETS		
Cash and due from banks	6,467	5,960
Certificates of Deposit	1,756	1,595
Investment in securities	2,197	2,241
Loans and advances (net)	10,142	9,838
Accrued interest	372	383
Investment in affiliates	63	65
Property and equipment	248	255
Other assets	258	300
TOTAL ASSETS	21,503	20,637
LIABILITIES		
Demand deposits	3,042	3,137
Savings and time deposits	13,298	12,524
Due to banks	2,891	2,827
Floating rate notes	22	43
Accrued interest	311	284
	19,564	18,815
Provision for taxes	70	66
Other liabilities	356	339
TOTAL LIABILITIES	19,990	19,220
CAPITAL FUND		
Issued and paid up shares	745	726
Legal reserves	49	50
Retained earnings and other reserves	148	110
Shareholders' equity	942	886
Subordinated capital notes	437	412
Minority interests	134	119
	1,513	1,417
CAPITAL FUND AND TOTAL LIABILITIES	21,503	20,637

APPENDIX 3

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

UNAUDITED RESULTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 1989

$'000

Location	Operating Profit	Estimated Loan Loss Provision	Profit/ (Loss) Before Tax	Tax	Profit/ (Loss) After Tax
BCCI (Overseas)					
Grand Cayman	(27,885)	11,000	(38,885)	-	(38,885)
Pakistan	17,067	1,500	15,567	10,275	5,292
Bangladesh	5,793	400	5,393	3,263	2,130
India	6,633	1,500	5,133	3,336	1,797
Turkey	2,448	1,000	1,448	706	742
Panama	3,286	1,000	2,286	-	2,286
Jamaica	3,059	-	3,059	1,805	1,254
Sudan	3,128	300	2,828	1,832	996
Florida	3,229	1,000	2,229	300	1,929
Others	23,427	3,800	19,627	7,634	11,993
Total Overseas	40,185	21,500	18,685	29,151	(10,466)
BCCI SA					
UAE	12,676	6,000	6,676	1,335	5,341
UK	5,701	10,000	(4,299)	-	(4,299)
Jordan	4,683	600	4,083	2,000	2,083
Luxembourg	3,363	2,700	663	274	389
Los Angeles	(1,021)	100	(1,121)	30	(1,151)
Others	9,752	2,600	7,252	3,161	4,091
Total SA	35,154	22,000	13,254	6,800	6,454
SUBSIDIARIES & AFFILIATES					
UAE	11,263	4,000	7,263	-	7,263
Hong Kong	13,007	5,000	8,007	1,320	6,687
Cameroon	8,598	1,700	6,898	2,621	4,277
Egypt	7,778	2,600	5,178	1,031	4,147
Zambia	6,285	250	6,035	3,108	2,927
Oman	6,809	4,000	2,809	655	2,154
Canada	3,190	300	2,890	1,367	1,523
Nigeria	8,069	1,200	6,869	3,160	3,709
Others	9,512	7,450	1,962	7,787	(5,825)
Total Subsidiaries and Affiliates	74,511	26,500	47,911	21,049	26,862
GROUP TOTAL	149,850	70,000	79,850	57,000	22,850

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

MAJOR EXPOSURES AT RISK IN COUNTRIES THAT HAVE BEEN IDENTIFIED AS REQUIRING PROVISION

($ million)

	Note Reference	Identified Exposure at risk 31 December 1988	Identified Exposure at risk 30 September 1989	Provision at 31 December 1988 and 30 September 1989	Effective % rate of provision 31 December 1989	Possible additional provision in 1989	Resulting effective % rate of provision
Nigeria - Refinancing and Government	(1)	230.7	216.8	64.6	28	11	35
- Commercial		30.3	29.9	5.8	19		
Phillipines - Central Bank	(2)	30.0	30.0*	5.0	17	5.5	35
Zambia - Central Bank	(3)	27.8	24.6	5.0	18	2.4	30
- Other		1.3	1.3	0.7	54	0.3	75
Sudan - Central Bank	(4)	20.0	19.9	10.7	54	1.7	75
- Other		4.9	-	3.2	65	(3.2)	
Iraq - Principal	(5)	11.8	11.8	2.4	18	1.2	30
- Interest		1.9	0.6	-	-		
Mexico	(6)	8.5	7.3	1.6	19	1.0	35
Cuba	(7)	2.3	2.3	0.6	26	1.1	75
Sierra Leone	(8)	1.5	3.3	0.4	27	1.5	60
Ivory Coast	(9)	-	0.8	-	19	0.6	75
Panama	(10)	-	0.6	-	-	0.3	50
		$371.0	$349.3	$100.0		$23.4	

* Estimate only: balance not expected to have changed significantly since 31 December 1988.

BCCI HOLDINGS (LUXEMBOURG) SA

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

NOTES

1 Nigeria

Interest has been received since December 1987 when the refinancing agreement was signed. A new schedule for repayment of capital on the main CBN exposure was signed in March 1989. Capital repayments have followed that schedule with repayments of $7.8m being received by 30 September 1989. If repayments continue then at current exchange rates the year end balances will be $210.2m. A further reduction in the dollar equivalent exposure has resulted from exchange rate movements in the period.

The effective rate of provision has increased from 27% to 29.5%. This sum is satisfactory in relation to the current matrix, however, more prudent provision at say 35% for all Nigerian exposure at risk would require an additional provision in 1989 of $11m (at 40%, an additional provision of $22 million would be required).

Commercial exposure has had no significant change. If anything a slight reduction due to some improvement in security. Interest continues to be paid on promissory notes held as security. The net exposure is already provided at 35%.

2 Philippines

Repayment of capital is not due for several years. Up to date information on the status of the loan to the Central Bank has not been received, however, no deterioration is anticipated. Level of provision remains satisfactory whilst being at the lower end of range indicated by the matrix. Talks on a more radical plan, like for Mexico, suggests provision may need to be raised to 35% by the end of the year.

3 Zambia

Repayments of $750,000 per month have continued. At 30 September 1989 ten instalments had been received since October 1988 with a further instalment received on 9 November 1989. Interest rates of 9%-11% have continued to be charged to the account.

The current effective rate of provision, 25% is very low by matrix standards, however, at 31 December 1988 while repayments were being effected it was accepted that BCCI's special relationship merited some recognition but with one repayment now late and the liklihood of increased matrix scores, higher provisions of 30% may be more realistic resulting in additional provision of $2.4 million. (Provision at the rate of say 40% would require an additional amount of $4.8 million).

The exposure to the Zambia Oil Project has remained unchanged. Provision at 75% is recommended. A new short term exposure of $5m has arisen in UK Region and this is expected to be repaid by 31 December 1989.

BCCI HOLDINGS (LUXEMBOURG) SA

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

NOTES

4 Sudan

The UK exposure which is a current account of the Bank of Sudan fluctuated between $14 million and $20 million during the period. Provision is currently held at the rate of 50% of the hard core element. With no signs of improvement in Sudan's general economic state a provision of 75% against the estimated $16.5 million hardcore element should be made.

The $4.9 million Hajj loan was converted into local capital for the Sudan operations in October 1989. It would be prudent to retain some of the $3.2 million provision to cover the risk on other exposures.

5 Iraq

The Iraq exposure of $11.8 million is now part of a correspondent bank line with Rafidian Bank which we are informed is now operational with active letters of credit.

In accordance with the agreement reached between BCCI and Rafidian Bank early in 1989 interest up to 31 March 1989 of $2.1 million was paid. Capital repayments were not due to commence until 1 October 1989, however, this payment has not been received yet. Management represent that there is no conclusive evidence that the agreement will not be honoured. At 30 September 1989, therefore, the provision made in 1988 is considered low and should be raised to 30% although this is still at the lower end of the Bank of England range.

6 Mexico

The recent international discussions on Mexican debt under the Brady plan indicate that a discount of 35% on outstanding debt is perhaps more appropriate than that determined by the matrix at 31 December 1988. If provision is raised to 35%, the additional provision required in 1989 is $1.0 million. Further information on BCCI's debt is required before the direct impact of the Brady plan can be identified.

7 Cuba

Interest, at rates of 12%-14%, continue to be rolled up on the Bank of Cuba exposure. Total interest in the nine months is approximately $230,000. We believe interest should be suspended. Movement in exchange rates have maintained the balance at a similar dollar equivalent to 31 December 1988. Effective rate of provision almost 30%. Evidence from some other banks indicates provisions of 75%.

8 Sierra Leone

Provision at 25% however, additional exposure identified in UK Region. Evidence from other banks scoring of the matrix suggests a 60% provision would be more appropriate.

BCCI HOLDINGS (LUXEMBOURG) SA

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

NOTES

9 Ivory Coast

Sovereign exposure not identified last year. Scoring of the matrix and indications from other banks suggests provision of 75% is appropriate. However, more information required on this advance at the year end.

10 Panama

Small sovereign exposure. Evidence from other banks suggests a provision of 50% would be recommended.

APPENDIX 5

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

FUNDED FACILITIES OVER $50 MILLION AT 30 SEPTEMBER 1989

	30 September 1989 $ million	31 December 1988 $ million
GNMA's	427	436
Customer A	404	349
Customer C	315	293
Customer E	260	194
Customer AA	217	226
Customer F	187	186
Customer B	179	145
Customer G	150	136
Customer D	139	219
Customer L	117	90
Customer K	117	101
Customer T	109	39
Customer N	106	84
Customer I	102	112
Customer M	98	87
Customer O	91	80
Customer P	65	127
Customer Z	57	-
Customer V	55	55
Customer Y	55	-
Customer X	54	30
Customer H	53	29
	3,357	3,018

APPENDIX 6

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

PROVISIONS BY LOCATION

$ millions

	Estimated charge reported by local auditors	Estimated charge prepared by Management
Major Locations		
UAE - Branches	10.0	7.0
UK	6.3	6.3
Luxembourg	2.1	1.6
New York	0.2	0.4
Japan	-	-
San Francisco	0.3	0.5
India	3.1	1.5
Kenya	(0.1)	-
Pakistan	2.0	2.0
Sri Lanka	1.0	1.0
Turkey	3.7	3.3
Florida	1.8	2.2
Panama	7.8	3.3
Cameroon	1.7	1.7
Hong Kong	9.2	6.5
Spain	2.9	3.2
Egypt	4.7	2.9
Emirates	9.4	3.9
Bangladesh	1.4	0.7
	67.5	48.0
Major Locations yet to report		
Colombia		1.5
France		0.7
Grand Cayman		5.0
NBO		4.8
Nigeria		1.2
International Loans		-
Other locations		7.5
		68.7
Specific provisions not yet allocated		10.0
Country risk		11.0
General and roundings		10.3
		100.0

APPENDIX 7

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

EXECUTIVE SUMMARY OF SELECTED INTERNATIONAL LOANS

Customer A

$ million	30 September 1989	31 December 1988
Funded gross exposure	404.0	349.0

(1) Background

BCCI have had a business relationship with this Pakistan Shipping Group and its owners, for some 10 years. The facilities are drawndown to provide working capital and to finance the purchase of ships.

(2) Security

Security, at values attributed by management, comprises:

	30 September 1989 $'million
Cash deposits/US bonds	32.6
Ships	35.5
Stocks	97.7
Freight receivables	137.4
Documents of title to goods under letters of credit	54.7
	357.9
Shares (in parent company)	382.7

The pledged security of shares in the parent company of the borrower may be difficult to enforce in practice owing to the possible presence of prior charges on the assets of the underlying operating entities and may include some double counting in respect of the other security noted above. We also believe that there may be difficulties in enforcing the stocks and freight receivables security and therefore, we cannot agree on the values attributed by management.

(3) Developments in 1989

During 1989 $35 million has been received in respect of prior year interest and charges. There have been further drawdowns of $19 million and payments against documents of $13 million. Interest and charges for the period to 30 September 1989 have amounted to $58 million.

An additional $13 million repayment was received in October and further repayments of $40 million - $50 million are expected around the end of the year.

The Bank is proposing to negotiate an agreement with this customer to provide a revolving facility for about 25% of their funding and have the balance included as a term loan with a fixed repayment programme over 7-8 years.

BCCI HOLDINGS (LUXEMBOURG) SA

EXECUTIVE SUMMARY OF SELECTED INTERNATIONAL LOANS

Customer C

$ million	30 September 1989	31 December 1988
Non CCAH related	197.4	188.2
CCAH related	117.2	105.0

(1) Background

The borrower is a Middle Eastern businessman. He has several business interests including banking, construction and engineering.

(2) Security (non CCAH)

- $57.5 million deposits.
- $34.0 million properties in Saudi Arabia (not formally charged).

(3) Developments in 1989

A repayment programme has been agreed and signed. $18 million was received in October 1989 and it is anticipated that the 31 December 1989 balance will be the same as at 31 December 1988 with a further significant repayment in early 1990. The account should show a net decrease of $24 million by the end of 1990.

BCCI HOLDINGS (LUXEMBOURG) SA

EXECUTIVE SUMMARY OF SELECTED INTERNATIONAL LOANS

Customer E

$ million	30 September 1989	31 December 1988
Funded gross exposure	260.1	194.3

(1) Background

Saudi Arabian entrepreneur with Middle Eastern, US bank and Argentinian business connections. During 1987 he sold the National Bank of Georgia to CCAH.

(2) Security

- Shares in Independence Bank/Centrust Savings Bank.
- Deposits.
- Shares in Eurotunnel.

(3) Developments in 1989

Although no formal repayment schedule has been signed management have notified us of the following:

- $18 million received in October 1989.
- $5 million expected in November 1989.
- $35 million expected in December 1989/January 1990.

BCCI HOLDINGS (LUXEMBOURG) SA

EXECUTIVE SUMMARY OF SELECTED INTERNATIONAL LOANS

Customer F

$'million	30 September 1989	31 December 1988
Funded exposure	187.5	186.4

(1) Background

Customer F is the Government of a Middle Eastern State. Approximately $153 million relates to a loan for a steam power plant which was rescheduled in 1987. The balance of the account is an overdraft which is not yet covered by a repayment agreement.

(2) Security

- $153 million is covered by post-dated cheques.

(3) Developments in 1989

The second and third quarter instalments due in 1989 have not been met and management have advised us that they are to meet with the customer shortly to discuss this.

Senator KERRY. Document No. 2 is a letter or a memorandum referencing the task force as a consequence of a meeting that you had with the partners of Price Waterhouse and summarizing the events of 1990 during which time you set out the goals of your task force, the investigative task force, in order to try to determine what had happened in BCCI.

[The information referred to follows:]

(PER PW) 31

BCCI

TERMS OF REFERENCE FOR TASK FORCE

(1) The task force has been set up to perform an independent review of certain problem accounts and areas identified by Price Waterhouse.

(2) The objective of the review should be to:

(1) Ensure all facts, files and documents about problem accounts/areas are out in the open, and available to PW.

(2) Address the concerns raised in auditors briefing notes.

(3) Determine extent of problem areas.

(4) Obtain missing documentation.

(5) Obtain independent evidence to support representations made by management.

(6) Conclude on
- nature of underlying arrangements
- genuiness of transaction/balances
- recoverability
- provision requirements.

(7) Report to SN and auditors.

(3) The review will involve, inter alia;

- independent review of the nature of the shareholders' arrangements and beneficial ownership of CCAH together with an assessment of the underlying value of the shares and divestment plans.

- independent investigation of arrangements and relationships between BCCI and Gulf Group, and offshore accounts, together with an assessment of financial standing.

- investigation of suspicious transactions particularly in Bahrain; and other transactions without adequate supporting documentation.

- realistic assessment of recoverability and provision requirements of above accounts, and those booked in the names of Sh Khalid Bin Mahfouz and Sh Mohammed Bin Rashid Al Maktoum.

(4) The task force in conjunction with PW's representatives will have access to all the bank's customer files and all employees. All employees will be required to give full and frank explanations.

(5) The task force will have the ability to request the assistance of any senior members of the bank's staff, including the Executive Committee.

(6) The 'official story' of the task force is to investigate and reconcile apparent wide differences in provision requirements, including Sovereign Risk, between management and the auditors.

(7) The task force will be provided with Price Waterhouse executive summaries of the international loans concerned, and will work closely with Price Waterhouse personnel, including periodic progress meetings.

(8) The task force will review its brief and background information, and perform preliminary enquiries to establish the following by Monday 19 March:

(1) How much progress it can realistically expect to make by Sunday 25 March ?

(2) How much time it realistically requires to complete assignment in the knowledge that BCCI's accounts cannot be finalised until it has completed its task to Price Waterhouse's satisfaction.

Senator KERRY. Document No. 3 is a private and confidential report by Price Waterhouse dated 14 March 1990, which was submitted to BCCI, which was an update audit, which began to show some of the problems that were taking place in BCCI.

[The information referred to follows:]

STRICTLY PRIVATE AND CONFIDENTIAL

BCCI HOLDINGS (LUXEMBOURG) SA
INTERNATIONAL LOANS AND ADVANCES
BRIEFING NOTE FOR INDEPENDENT
TASK FORCE
14 MARCH 1990

STRICTLY PRIVATE AND CONFIDENTIAL

This document contains briefing material for the independent task force appointed by the Chief Executive of BCCI Holdings (Luxembourg) SA to investigate and report on certain international loan facilities.

This document is in two parts:

APPENDIX 1 - Summary of Selected International Loans

APPENDIX 2 - Additional Background Information and Correspondence.

Price Waterhouse



BCCI HOLDINGS (LUXEMBOURG) SA APPENDIX 1

SUMMARY OF SELECTED INTERNATIONAL LOANS

1 (1) CCAH

1 (2) Sh Kamal Adham

1 (3) AR Khalil

1 (4) Gulf Group

1 (5) Offshore companies

1 (6) Mahfouz Family

1 (7) Sh Mohammed Bin Rashid Al Maktoum

	No of Clients A/cs	Amt o/s 1989	Amt o/s 1988	Security 1989	Security 1988	Income 1989	Income 1988
① CCAH:	8(41)	856	690	700/720?	..	134	91
② S.K.A:	1	208	206	93	..	41 (*)	35
③ A.R.K:	1	30	25	–	–	27 (**)	21
④ GULF Group:	3 (+8)	405 (420?)	353	[71 + 376 (G.114 m% + 4416 m o/s)]	..	74	62
⑤ Offshore A/cs:	[59+4]	[27 185 202]	[26 132]	[65 +	..	32	32
⑥ Mahfouz:	1	153	69	[15% NCB + dep: 149 (95)]?	.. (250 p/f NCB)	3	12
⑦ Sh Mohd Bin Rashid:	1	121	101	[dep: 110 Accts: 61334]	..	20	7
	15+59*	1985	1602			263+	204+
⑧ Bahrain:	[3 =H.K 2 =H.O]	10 10	–	–	–	–	–
⑨ CFC:	3	10	–	–	–	–	–
⑩ G/C:	4	5	–	–	–	–	–
⑪ N.Boo:	2 =H.K	5	–	–	–	–	–
	14	40				–	–

(*) Includes for CCAH related loans

** Internal client

① CCAH:	50
② SKA:	20
③ ARK:	30
④ GULF:	25
⑤ Offshore:	50
⑥ Mahfouz	–
⑦ Sh Mohd R.	–
⑧ Others	25
	200

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (1)

(1) Lending secured on shares in CCAH

$ million	31 December 1989	30 September 1989	1988	31 December 1987	1986
Funded facilities:					
1. Ruler of Fujeirah	186	179	147	124	102
2. Ruler of Ajman	86	84	73	52	41
3. Faisal Al Fulaij	113	106	86	71	61
4. Sh Ali Mohammed Shorafa	123	116	92	52	48
5. A R Khalil	120	121	111	89	83
6. Sayed Jawhary	5	5	6	2	-
7. Sh Kamal Adham	105	117	105	78	44
8. Midgulf Trading (Hamoud?)	44	43	38	-	-
9. Rubstone Trading (Hamoud?)	15	14	12	-	-
	797	785	670	468	379
CCAH Debenture	20	20	20	-	-
CCAH Rights Issue	39	52	-	-	-
	856	857	690	468	379
Unfunded facilities:					
Ruler of Fujeirah	175	175	175	175	175
Income earned on the accounts	134		91		

(1) Background

CCAH was established in 1977/78 as an acquisition vehicle. In August 1982 it acquired First American Bank shares which in turn acquired National Bank of Georgia in 1987.

BCCI has provided loan facilities to shareholders of CCAH secured on their shares since 1984.

New loans have been provided to enable the shareholders to take up rights issues and other additional drawdowns have been provided with the backing of the CCAH shares given as security.

BCCI act as advisers to the shareholders of CCAH and are currently providing advice to them on liquidating part or all of their investment.

June '89 — March '90 — Dec 89

106400 @ 2868 = 305.155.200

@2	@5736 =	
@2.10	@6166 =	
@2.2	@6310 =	
@2.25	@6453 =	686.599.200
@2.3	@6596 =	701.814.400
@2.4	@6874 =	731.393.600
@2.5	@7170 =	762.888.000
@2.75	@7887 =	839.176.800
@3.0	@8604 =	915.465.600

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (1)

(2) Security

At 31 December 1989 the bank held approximately 106,400 CCAH shares as security for this lending with a net asset value of $2,868 per share based on the unaudited financial statements at 30 June 1989.

The realisable value of this security at 31 December 1989 cannot be fully determined until the 1989 financial statements of CCAH are available. Nonetheless the security is likely to have a value in the range of $620 million to $720 million.

The pledging arrangements for the shares are informal - the bank hold the share certificates and signed blank transfer deeds supplemented by power of attorney - and the number of shares pledged by some borrowers have changed from year to year. Certain cross pledges also exist whereby one borrower's shares are pledged against another's loans. Bank officials have represented that as the shares are subject to blank transfer forms and power of attorney they can be applied against exposures of other borrowers at will.

In the past bank officials have represented that they hold all the CCAH shares and not simply those pledged, although this year this has been denied.

The bank's records of total shareholdings suggest that the shareholders in the main hold more shares in CCAH than they have pledged to the bank but this is inconsistent with the arrangements noted above.

(3) Concerns

(1) Absence of critical information

Promissory notes have only been provided for $270 million of the total loans outstanding.

Loan agreements have not been drawn up or signed for many of the loans.

The files maintained by the bank are sparse and do not in our view support the level of lending. There is a general lack of third party evidence or customer acknowledgement.

No evidence has been provided to support the beneficial ownership of Midgulf Trading or Rubstone Trading, despite management agreement to do so.

Drawdowns in 1989 (totalling $42 million) have not been supported by written requests from the customers. Two of these drawdowns were routed to the same account at NCB; and the bank represent that they took verbal instructions from only one customer in this instance.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (1)

(2) Control of facility within limits

There has been no real control of these facilities within limits. Limits have generally been increased on an annual basis to allow for the application of interest and new drawdowns.

(3) Irregularities in approval procedures

New drawdowns in 1989 of $35 million were not approved by the Board before disbursement.

The CCAH debenture of $20 million was extended through CFC and therefore has not had BCCI Board approval.

The advances in respect of the 1989 rights issue - ie share subscription account - have not been submitted to the Central Credit Committee or the Board because they are not regarded as advances until they are allocated to particular borrowers.

(4) Reliability of management representations

At the Audit Committee meeting in November 1988 management informed us that:

- each of the CCAH accounts is carefully monitored and that attempts are being made to reduce the outstandings.
- there have been excesses over the CCAH limits but this practice will be discontinued.

These representations have not been met. New drawdowns have been allowed and limits have been exceeded.

In March 1989 management represented that the group's exposure to CCAH would be reduced and that they were discussing ways of effecting this with the customers concerned. They confirmed that each of the borrowers would individually make good any shortfall from their own resources.

In fact the outstanding balance at December 1989 is $150 million greater than that a year previously; and two borrowers have rejected their loan commitments.

In August 1989 management informed us that the 1988 and 1989 interest would be collected, assuming the loans were not repaid by means of a disposal. This would have required additional cash receipts of almost $200 million which has not occurred.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (1)

At the Audit Committee meeting in November 1989 we were informed that:

- $25 million would be received on CCAH accounts in November or December
- a substantial amount of interest and the short term advances would be recovered before finalising the 1989 BCCI accounts.

Since that meeting we are only aware of $5.5 million being received in respect of CCAH facilities.

(5) Evidence of recoverability

The lack of evidence to support the terms of this lending and the recent drawdowns make it difficult to determine recoverability.

Interest has not been serviced and the overall exposure has increased significantly in the last few years. There is no evidence to suggest that any of these accounts will be repaid or reduced, except to the extent that the bank are able to sell the CCAH shares held under power of attorney.

We have requested the borrowers to confirm to us that:

(i) The outstanding balance at 30 September 1989 was correctly stated.

(ii) They had pledged their shares in CCAH as security for the lending and where appropriate they had cross pledged their shares as security for other borrowers.

(iii) They had instructed the bank to act on their behalf in negotiating the sale of the CCAH shares.

(iv) They would make up any shortfall between their lending secured on CCAH shares and the value ultimately realised on the sale of these shares.

We have had four positive responses. Two borrowers have refused to accept these terms, two borrowers have yet to reply and one borrower has not yet been circularised, because the bank have ceased contact with him (A R Khalil).

The borrowers who have not accepted the lending or who have not replied to the confirmation request, and the one not yet circularised, cause us significant concern and call into question the ultimate recoverability of their outstandings.

Whilst CCAH is valuable security, as noted above there is likely to be a considerable shortfall, and in any event disposal is unlikely to be achieved easily.

(6) Other Concerns

Management have represented that Midgulf and Rubstone, whose loans are secured by shares beneficially owned by M M Hammoud, are not owned by M M Hammoud, yet the audit confirmations have been signed by a person at one time represented to be Mr Hammoud's representative.

No audit confirmation was received from the Ruler of Ajman in 1986, 1987 or 1988. A R Khalil has not confirmed since 1985. Confirmations were not received from Midgulf and Rubstone in 1988.

The charges levied by BCCI are substantial and there are no agreements with the borrowers on the basis of charging.

There is no evidence that the CCAH shareholders, individually or collectively, agreed to take up their allocations under the July 1989 Rights issue, yet BCCI granted short-term loans of $50 million and remitted this to CCAH. The rights issue shares have yet to be allocated between shareholders, although the provisional allocation shows all allocations in accordance with purported ownership, except that the shares of Sh Khalid Bin Mahfouz and A R Khalil have been allocated to Rubstone.

Repayments of $1.5 million each, received without documentation, for the Ruler of Fujeirah and the Ruler of Ajman in April 1989 were not allocated to the customer accounts until October 1989. Despite follow up action by the account officer and a request to have interest adjusted, there is no evidence of communication with either borrower.

We understand that an annual return of CCAH shareholders has to be made to the Federal Reserve. In the past management have represented that, whilst the original shareholder group was registered with the Fed, subsequent changes have not all been reported as they represent changes of internal arrangements, and BCCI did not wish to cause difficulties in connection with the forthcoming sale.

	Holdings	Subs	Limit	IS 31/12/83	Securities Type	Value	Comments
(A) GIH	①	3	146.5	235.6	Cash:	17.0	
				6.8 Pfds	Bonds:	17.0	
				242.4	Shares:	33.5	
					GIH (Sec)	382.7	
						450.2	
(B) OTHER GULF (2(1)) (Unicons.)		8	109.5	162.1			130.5 Recvbl 115.5 Stock
		11	256.0	404.5			246.0
(C) Distant Rel. (Dunbar Co)		3	10.0	10.0		—	? Shs of Pilot Rt.

(D) OFFSHORE Cos

1. Gthal Family Members (Rule 4)		7	25.4	27.08	Ships	11.1	2.4 Recvbl 14.0 Stock
		10				466.3	16.4
		21	291.40	441.58			
2. Ships/Property Owning Cos	(")	13	52.15	64.4	Ship/ Prop	49.6	15.1 Recv.
3. Shipping/Trading Co	(")	27	85.50	106.9		—	230.7 Shp Recv 102.8 Freight Recv
		40					332.5

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (2)

(2) Sh Kamal Adham

$ Million	31 December 1989	30 September 1989	31 December 1988	1987	1986
CCAH secured	105.6	117.3	90.8	78.0	44.0
Other	207.7	197.3	205.5	121.9	108.2
	313.3	314.6	296.3	200.2	152.2
Income earned from the account	41.4		35.1	24.5	

(1) BACKGROUND

Sh Kamal Adham has had significant exposure in BCCI for many years. He has major shareholdings in CCAH and Allied Arab Bank and construction and engineering interests in Saudi Arabian companies.

He has been allowed $18 million of new drawdowns in 1989 of which $7 million was repaid.

(2) SECURITY

(11.0)

Sh Kamal Adham's CCAH related lending is secured on 16,142 shares in CCAH. In addition he has pledged 15,050 shares in respect of Sh Sharqi's lending and 5,974 in respect of the borrowings of Faisal Al Fulaij.

The security for Sh Kamal Adham's other lending companies:

Deposits under lien	$58.9 million
Properties in Saudi Arabia (not mortgaged)	$34.0 million
	92.9

The balance of his lending ($114.8 million) is clean.

(3) CONCERNS

207.7

(1) Absence of Critical Information

There are no loan agreements with the customer or formalised repayment terms. The customer has agreed to repayment terms for 1989 and 1990 but this is not a formalised arrangement and only deals with a fraction of the exposure.

Drawdowns of $18 million during 1989 have not been supported by written requests from the customer.

No valuation has been provided in respect of the properties in Saudi Arabia, and there is no legal basis for this security.

We have not received an independent net worth statement for Sh Kamal Adham.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (2)

Sh Kamal Adham (continued)

(2) Control of Facility Within Limits

Although the facility is within its Board limits, these have merely been increased in line with the level of exposure.

(3) Irregularities in Approval Procedures

New drawdowns in 1989 of $18 million were not approved by the Board before drawdown even though limits had been exceeded.

(4) Reliability of Management Representations

At the Audit Committee meeting in November 1988 management represented to us that they would take further action to ensure that the mortgage over Sh Kamal Adham's property in Saudi Arabia was enforceable. This has not happened.

During the course of the 1988 audit we were told that a formal repayment agreement would be finalised between BCCI and the borrower. Agreement has been reached for 1989 and 1990 only but this does not address the total outstandings.

We have been informed both during the course of the 1988 audit and during the 1989 audit, that a net worth statement would be drawn up by a firm of auditors to confirm the worth of Sh Kamal Adham. This has not been forthcoming.

On 6 November 1989 we were informed that the overall balance of Sh Kamal Adham's account would be reduced to the 1988 level by the year end. At 31 December 1989 it exceeded the prior year by $17 million.

(5) Evidence of Recoverability

The receipt of the audited net worth statement will be helpful to demonstrate Sh Kamal Adham's ability to repay his loans. In addition the receipt of funds in accordance with the agreed repayment terms will demonstrate his willingness to pay but a formal repayment schedule dealing with the balance of the outstandings will be important for the future.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (3)

(3) A R Khalil

$ Million	31 December 1989	30 September 1989	31 December 1988	1987	1986
CCAH secured	120.4	121.3	110.7	89.0	83.0
Unsecured	29.9	28.7	24.9	21.9	20.0
	150.3	150.0	135.6	110.9	103.0
Income earned from the account	26.7		21.4	15.8	

(1) BACKGROUND

Since the cessation of A R Khalil's treasury trading relationship with BCCI in 1985 there has been little, or no, direct contact with this borrower.

(2) SECURITY

The secured part of this lending is secured on 13,250 shares in CCAH.

(3) CONCERNS

(1) Absence of Critical Information

There are no signed loan agreements with the customer. There is no correspondence with the customer. There are no net worth statements or cash flow information. There is no documentation (other than bank notification) to support receipts of $5 million from United Overseas Bank, London and $7 million from SNCB Bahrain credited to A R Khalil's accounts during the year.

(2) Control of Facility Within Limits

The accounts have increased since drawdown in 1984/85 from $79 million to $150 million mainly through the application of interest. New limits have been regularly approved by the Board in respect of this unpaid interest. The current limits are $115 million (secured) and $30 million (clean). Borrowings have typically run ahead of limits.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (3)

A R Khalil (continued)

(3) Irregularity in approval procedures.

The CCC approval in October 1989 included a repayment schedule of:

November 1989	$10 million
December 1989	$10 million
February 1990	$10 million
March 1990	$10 million
April 1990	Reduce exposure to $100 million

- there is no evidence that this was agreed with the customer.

- no such repayments have been received

(4) Reliability of management representations

During the course of the 1988 audit we were informed by management that

- 1988 interest of $21 million would be serviced before 31 March 1989 with a further repayment of $10 - $15 million being received.

- the loan balances would be confirmed

- the loans would be restructured so that they became due from corporate entities

Furthermore, at the Audit Committee in April 1989 Mr Naqvi confirmed that $25 million would be received by 30 June 1989 and a formal repayment schedule agreed.

These have not happened. The only receipts have been $5 million received in April 1989 and $7 million received in October 1989.

At the Audit Committee meeting of November 1989 management informed us that $10 million would be received each month and the unsecured exposure would be eliminated by the year end.

There have been no receipts since October 1989.

Management has also told us that Sh Kamal Adham is planning to purchase A R Khalil's investments.

We have seen no evidence of this.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (3)

A R Khalil (continued)

(5) Evidence of recoverability

The loan has not been confirmed in four years, ie since 31 December 1985.

Interest and charges of at least $45 million have not been serviced during the last five years.

Lack of documentation to support level of borrowings or any continuing relationship with borrower; and inconsistent representations about the relationship.

Interest has not been suspended as suggested by Price Waterhouse in 1988.

No replacement of deposits previously held as security.

The only repayments from 1986 to date have been $7 million in 1987 and $12 million in 1989.

There is no evidence to support recoverability and the loan should be written down to the underlying value of its security.

(6) Other Concerns

Despite an apparent breakdown in the relationship between the borrower and the bank, A R Khalil apparently subscribed for 57,748 rights issue shares of BCCI in April 1989. There is no acceptance letter or other evidence on file that he did subscribe for these shares. Funds were received from SNCB Bahrain without any supporting documentation.

The provisional allocation of the 1989 CCAH rights issue shows that A R Khalil is not included. This may indicate that his relationship with the bank has finished or that he is no longer the beneficial owner of CCAH shares.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (4)

(4) Gulf Group

$ Million	31 December 1989	30 September 1989	31 December 1988	1987	1986
Funded gross exposure	404.9	404.0	352.8	284.4	261.5
Income earned from the account	74.0		61.8	46.8	

(1) BACKGROUND

BCCI have had a business relationship with this Pakistan Shipping Group and its owners, the Gokal brothers, for over ten years. During this time the trend has shown increasing balances to the current high levels.

(2) SECURITY

The borrowings have been guaranteed by the Gokal brothers and in addition the bank holds 11.5 Million (90%) shares in Gulf International Holdings (GIH). There are first charges over most of the fixed assets of GIH, held presumably by other banks; and thus BCCI's recourse would be to the residual assets after settlement of secured creditors. The net assets at 31 March 1989 of GIH were $416 million.

In addition BCCI hold charges over the following specific assets:

	31 December 1989 $ Million
Cash deposits/US Bonds	30.9
Ships	33.5
LC documents	7.0
	71.4

(1) Absence of Critical Information

On 12 January 1989 we wrote to Mr S M Akbar requesting more information about Gulf International Holdings; a copy of this letter is included as Appendix 2(2). The response to this letter has been poor and in particular the following information has not been provided:

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (4)

Gulf Group (Cont'd)

- Analysis of guarantees (totalling $136 million) provided by Gulf International Holdings.
- Audited financial statements of subsidiary companies.
- Management accounts of the Gulf Group after 31 March 1989.
- Cashflows and forecasts for the Gulf group.
- Financial statements for non-consolidated subsidiaries.
- Evidence of beneficial ownership of non consolidated subsidiaries.
- Evidence to support beneficial ownership and security valuations of related lending (totalling $37.7 million).

The only financial information that we have been provided to assess lending to the Gulf Group is the audited financial statement at 31 March 1989 of Gulf International Holdings. This excludes lending of $162 million to non-consolidated companies and lending of $37.7 million to related parties.

(2) Control of Facility within Limits

At 31 December 1989 the outstanding against limits were as follows:

$ Million	Limit	Outstanding
Funded	257.0	404.9*
Unfunded	25.0	21.8

* This excludes $15.0 million drawdown in Australia on a bills negotiated account for Capricorn Chartering Pty Ltd - a Gulf Group company.

The funded excess of $147.9 million is an increase of $39 million over the excess reported at 31 December 1988.

(3) Irregularities in Approval Procedures

Gulf Group companies have limits set by the Board by individual company and not on a Group basis. Limits of less than $7.5 million to individual companies are not referred to the board despite their being part of the Gulf Group.

Loans of $16 million to Pilot Petroleum have been approved by the Board. The Board was informed that Pilot Petroleum was registered in the United States of America. Whilst it is true that there is a Pilot Petroleum company in the United States which may be owned by the Gokal family or Gulf Group, this lending was to another company of the same name, registered in Liberia for which there is no financial information.

SUMMARY OF SELECTED INTERNATIONAL LOANS

Gulf Group (cont'd)

Similarly loans of $60 million have been approved by the Board to Marcotrade International Ltd. The Board was informed that this company was registered in Switzerland. Again, there is a Gulf Group Company, Marcotrade SA which is registered in Switzerland but this lending was to a Cayman Islands company, for which there is no financial information.

We believe that providing the Board with incorrect information about the residence of these companies has been misleading.

(4) Reliability of Management Representations

During the 1987 audit we were assured by management that the balance on this account would not increase from the 31 December 1987 level.

At the Audit Committee meeting on 4 April 1989 management informed us that the intention was to bring the outstandings on the Gulf Group down and that discussions were in progress.

These events have not happened and the 31 December exposure is significantly greater than in 1987 or 1988.

During the course of our interim audit, management informed us that they expected $50 - 60 million would be received by the end of March 1990.

We are still awaiting the outcome but to date this has not happened.

(5) Evidence of Recoverability

Management have informed us that they base their assessment of recoverability on their understanding and relationship with this customer. We have been given little concrete data on which to assess recoverability but note the following:

- 1989 interest has not been serviced.
- No evidence has been provided to support the security value of loans to non-consolidated companies.
- Most fixed assets of the Gulf International Holdings group (including its vessels) are mortgaged to other banks in priority to BCCI.
- BCCI has not registered its debentures over the assets of the Gulf Group at the request of the customer, apparently to enable it to borrow from other banks; and until recently had not informed us of this fact. In previous years we had been led to believe that these debentures represented valid charges over the assets of subsidiary companies.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (4)

Gulf Group (cont'd)

(6) Other Concerns

Loans secured on Pilot Petroleum Corporation (incorporated in the US) are excluded from Gulf Group or Gokal family expenses.

Management have informed us that Pilot Petroleum is not part of the Gulf Group and yet company searches carried out by Price Waterhouse would seem to indicate that it is.

Management have informed us that financial statements for certain companies are not prepared yet for at least one of these companies we have been able to obtain a recent set of financial statements.

There are a number of relationships between the Gulf Group and offshore companies which have yet to be satisfactorily explained (in fact management inform us that they have imparted the sum total of their knowledge on these arrangements to us) such that we cannot be sure of the extent of the Gulf Group lending.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (5)

(5) Offshore Loans

$ Million	31 December 1989	30 September 1989	31 December 1988	1987	1986
Funded gross exposure					
Gokal family	27.2	27.1	26.0	27.5	26.5
Others	184.7	183.7	131.9	86.7	12.1
	211.9	210.8	157.9	114.2	38.6
Income earned from the account	31.6		32.1		

(1) BACKGROUND

Although there has been lending to offshore companies beneficially owned by the Gokal family for a number of years, most of this type of lending commenced in late 1986 and has steadily grown since that date. The companies concerned have traditionally been registered in Liberia with the beneficial owners being of Indian or Iranian origin. New advances in 1989 have been to companies registered in the Caribbean.

The loans are parked in a number of locations. To date we have identified such loans in Cayman, Panama, Nassau, Uruguay, Bahrain and Oman. We understand that one of the reasons for parking these loans in so many locations is to allocate the interest and fees generated on these accounts to those locations that need the income.

The lending is usually for ship financing or trade related purposes. Ship financing is always supported by a mortgage and valuations from a London broker. Certain of the ships have been purchased from the Gulf Group.

The destination of drawdowns and the source of repayments for all these accounts are often the same despite different beneficial owners. There appears to be an intermediary function adopted by certain trust companies in respect of these accounts.

(2) SECURITY

Certain of the loans are secured by mortgages over ships. The value of this security at 31 December 1989 was about $65 million.

The balance of the lending is secured by assignment of receivables and hypothecation of stocks, which management accept may not be enforceable.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

Offshore Loans (Cont'd)

3 CONCERNS

(1) Absence of Critical Information

On 12 January 1989 we wrote to Mr S M Akbar requesting more information about these accounts; a copy of this letter is included as Appendix 2(2). We have not had adequate answers to many of the questions raised and we still do not have the following critical information:

- Evidence to support the beneficial ownership of these companies.
- Financial statements.
- Cashflow forecasts.
- An understanding of the inter relationship between these companies.
- An understanding of the source and destination of funds relating to these facilities.
- An understanding of the relationship of these companies and the Gulf Group.

The standard loan agreements contain requirements that financial statements are provided prior to disbursement of funds, and other financial statements provided as may reasonably be required, yet management do not enforce these requirements.

Management have informed us that financial statements are not prepared for these companies although we have seen evidence to suggest that at least one company has its financial statements audited.

(2) Control of Facilities Within Limits

The majority of the offshore lending has been domiciled in Grand Cayman, the Bahamas and Panama and has been controlled by the General Manager in Grand Cayman.

During 1989 most of these facilities have operated very close to their limits and may have exceeded limits either through the application of interest or by virtue of new drawdowns.

Certain excess over limits have been authorised by the Grand Cayman General Manager contrary to normal procedures. We are not aware whether this was done with CCD's agreement.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (5)

Offshore Loans (Cont'd)

(3) Irregularities in Approval Procedures

We have noted at least five loans where drawdowns have been allowed in 1989, despite the loan already being in excess of limits. These drawdowns have not been approved by Central Credit Committee.

The offshore loans are not approved by Central Credit Committee at the normal committee meetings but tend to be approved by rotation amongst committee members. Furthermore only one page summaries are supplied to Central Credit Committee and not the full ten page proposal document, which do not permit sufficient information for an independent assessment.

There are ten offshore facilities with limits of $5 million or more - These have not been referred to the Board even though they were approved before the referral limit was increased to $7.5 million.

The beneficial owners of the offshore loans may be individual family members within a family group. The family loan limits have not been collectively approved by the Board.

As noted in our report to the Audit Committee in November, new offshore loans drawndown in 1989 in Bahrain totalling $20 million were not approved by Central Credit Committee before drawdown. The Chief Executive's revelations about the real purpose of certain of these accounts, and the fact that the drawdowns on other accounts have been made to similar companies (some connected with the Gulf Group) considerably increase our concerns over the offshore lending generally.

(4) Reliability of Management Representations

During the course of our 1988 audit management informed us that there would be no further drawdowns on the offshore accounts in excess of limits without Central Credit Committee approval. This has not happened in a number of cases.

(5) Evidence of Recoverability

Many of the offshore loans are in excess of their limits and there is little capacity for further activity through these accounts.

The application of interest has taken most of the loans over their limits and the ability to service interest is in doubt.

The loans have been acknowledged by independent confirmation but not by the beneficial owners. No guarantees have been given by the beneficial owners.

Other than ships under mortgage (totalling $65 million) there is no tangible security for these accounts.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (5)

Offshore Loans (Cont'd)

We have no evidence of the ability of these borrowers to service or repay their loans. We understand however, that many of these accounts may be in breach of Indian or Pakistani exchange control regulations, and that recoverability will thus be dependent on the extent to which the beneficial owners have offshore assets outside India or Pakistan.

Management have informed us that they rely on their knowledge of and relationship with the beneficial owners, but can provide us with no evidence of beneficial ownership. We are thus unable to take this into account in assessing recoverability and for those accounts not being serviced where there is no enforceable security we are unable to conclude that such amounts are recoverable.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (6)

(6) - Mahfouz Family

$ Million	31 December 1989	30 September 1989	31 December 1988	31 December 1987
Funded gross exposure	152.5	6.7	68.9	141.2
Income earned from the account	2.7		11.5	3.9

(1) BACKGROUND

During the latter half of 1987 the Mahfouz family (excluding Sh Khalid Bin Mahfouz) obtained a loan from BCCI of $100 million purportedly to purchase the remaining 15% share of the partnership in National Commercial Bank (NCB). The advance was fully repaid in July 1989.

On 2 October 1989 an advance of $100M was allowed to Sh Khalid Bin Mahfouz out of BCC Emirates and a temporary facility of $46 million out of BCCI - SA Bahrain.

146

(2) SECURITY

The exposure is supposedly secured on 15% of the partnership in NCB. In addition deposits of $149 million, including $95 million in the name of M Barasain, have been placed by Sh Khalid with BCCI but not under lien.

(3) CONCERNS

(1) Absence of Critical Information

The drawdowns of $146 million have not been supported by requests from the customer, nor were payment instructions received from the customer. The purpose of the lending is not known.

There are no loan agreements, promissory notes or security documentation for the advance.

Deposits are not all in the name of Sh Khalid and are not under lien. In fact those in the name of M Barasain, who we understand is an officer at NCB Jeddah, are in accounts which specifically state that they can only be operated by him.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (6)

Mahfouz Family (Cont'd)

(2) Irregularities in Approval Procedures

The bank's internal instructions to remit funds to Sh Khalid Bin Mahfouz in respect of the $146 million facility allowed in 1989 are dated 28 September 1989 for value 2 October 1989, although the proposal to Central Credit Committee was dated 2 October 1989. Board approval was not given until 27 November 1989.

The Board was advised that the loans advanced in 1989 were secured on a 15% share of the partnership of NCB, which was the security for the previous advance, although there is no evidence to confirm this. The Board was not advised of the related exposure to NCB that BCCI already had, being placements of $250 million.

(3) Evidence of Recoverability

The bank is heavily exposed to the Mahfouz family bank (NCB) with placements of $250 million due from it.

We are concerned about this level of placements particularly because the accounts of NCB are heavily qualified.

Deposits of $46 million were placed by Sh Khalid with BCCI over the year end, being withdrawn on 10 January 1990. We have seen no supporting documentation for this.

(4) Other Concerns

There are no acceptance letters or other evidence from Sh Khalid on file to confirm the subscription by his nominee companies for 375,000 BCCI shares of the April 1989 rights issue.

The provisional allocation of the CCAH rights issue of July 1989 indicates that Sh Khalid is not taking up his rights shares.

Sh Khalid has an option to put his shares in CCAH back to the Ruler of Fujeirah, which may necessitate the latter calling the guarantee of $175 million issued by BCCI.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (7)

(7) Sh Mohammed Bin Rashid Al Maktoum

$ Million	31 December 1989	30 September 1989	31 December 1988	1987	1986
Funded gross exposure	120.9	116.8	101.4	-	-
Income earned from the account	19.5		6.9	-	-

(1) BACKGROUND

Sh Mohammed Bin Rashid Al Maktoum is the effective Ruler of Dubai. In 1988 there were three drawdowns for Sh Mohammed totalling $145 million of which $50 million was repaid in the same year. (95)

The above figures exclude a small account in the UK called the "Dubai Office Account" and overdrafts for Stock and Crescent Holdings in Dubai.

(2) SECURITY

The facilities are clean. Sh Mohammed does have deposits with BCCI SA in Luxembourg totalling $109.8 million at 31 December 1989 but these are not held under lien.

(3) CONCERNS

(1) Absence of Critical Information

No written requests for the original drawdowns have ever been received and no support for the purpose of the loans has been given.

There are no loan agreements or promissory notes for the advance.

There is no evidence of communication or correspondence with the borrower and no instructions to confirm payees.

No audit confirmation was received in 1988 despite management's assurance and our expectation that it would be obtained.

(2) Irregularities in Approval Procedures

The drawdowns were approved by the Boards of BCCI SA and BCCI Overseas in April 1988 based on the submission of a standard form request indicating prior approval of CCC, although no such approval had been given.

Board approval shows repayment period to be determined at the time of each drawdown, but no repayment arrangements exist.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (7)

Sh Mohammed Bin Rashid Al Maktoum (Cont'd)

(3) Reliability of Management Representations

During the course of the 1988 Audit, management agreed to provide us with a loan confirmation. This has not been forthcoming.

(4) Evidence of Recoverability

Given the total lack of documentation for this advance and the absence of confirmation of the balance, we are unable to asses the recoverability of the amounts outstanding.

(5) Other Concerns

The initial drawdowns on the accounts of Sh Mohammed of $94 million from CFC were routed to NCB for the attention of Sh Khalid Bin Mahfouz although we are not aware of any business relationship between them.

Sh Mohammed is a BCCI shareholder through Stock and Crescent Holdings with 2,375,661 shares (3.3%) prior to the 1989 rights issue. Although he took up rights to 61,354 shares in April 1989 there is no acceptance letter; the funds came from new overdraft accounts in Dubai and BCCI still hold the share certificate.

2375661
61,354
2437015

BCCI HOLDINGS (LUXEMBOURG) SA APPENDIX 2

ADDITIONAL BACKGROUND INFORMATION AND CORRESPONDENCE

2 (1) Memorandum on Bahrain and NBO offshore lending.

2 (2) Letter to S M Akbar - 12 January 1990.

2 (3) Memorandum to C I Cowan - 3 January 1990
(Copied to Mr Ashraf Nawabi and Mr Ali Abbas).

2 (4) Letter to S N Naqvi - 14 February 1990.

BCCI HOLDINGS (LUXEMBOURG) SA APPENDIX 2 (1
LOANS TO OFFSHORE COMPANIES DRAWN DOWN IN BAHRAIN
AND OMAN WITHOUT PROPER DOCUMENTATION

Bahrain has made advances totalling $10 million to three offshore companies incorporated as shown below:

	Place and date of incorporation		Loan Amount
(1) Brigadier Investment	Nevis	August 1988	$4.0 million
(2) Audley Mercantile	Grand Turk	August 1988	$2.5 million
(3) Metropole Trading	BVI	August 1988	$3.5 million

The unusual features of these loans are that they are:

(1) To nominee companies.

(2) The beneficial owner of the companies is represented to be a member of the Saudi royal family.

(3) The purpose of the loans are stated to be working capital for trading purposes but there is no further specific information about the purpose, activities of the companies or the beneficiary.

(4) There is no evidence of instructions from the customer either for the loan or the disbursement of funds.

(5) The amounts were all disbursed on the same date - 18 April 1989 - (before discussions with central credit) to the following parties:

- Brigadier	$4 million	1. Capricorn Chartering
- Audley Mercantile	$2.5 million	2 Granite Financial Trust
- Metropole Trading	$3.5 million	3. Hallet Enterprises Pte Ltd

Our discussions with senior management have indicated that these loans will need further investigation and suggested that they may not be bona fide.

On the same and very similar dates a number of new offshore loans were disbursed in Grand Cayman and CFC, some to the same beneficiaries, and consequently these also require further investigation:

CFC

1. Byword	$3.5 million	18 April 89	1. Global Trading
2. Elystan	$2.5 million	18 April 89	— Hallet Enterprises
3 Sigale	$4.3 million	14 April 89	2. Metra Holdings

BCCI HOLDINGS (LUXEMBOURG) SA
LOANS TO OFFSHORE COMPANIES DRAWN DOWN IN BAHRAIN AND OMAN WITHOUT PROPER DOCUMENTATION

APPENDIX 2 (1)

Cayman

1.	Template	$1.5 million	18 April	1. Kwantung Prov Bank
2.	Grantley	$1.2 million	17 April	2. Capricorn Chartering
3.	Pembrin	$1.0 million	17 April	3. Conrad Finance Inc
4	Parkray	$1.4 million	17 April	4. Mr Garlic Pty Ltd

We note that those new loans over $1.5 million, which is the limit of Mr S M Akbar's authority, were routed through CFC and consequently did not need Central Credit Committee approval.

We are aware that Hallet Enterprises, Capricorn Chartering and Mr Garlic Pty Ltd are all Gulf companies or have very close links with the Gulf Group.

Loans to offshore companies with repayments from Granite Financial Trust (Luxembourg) have also been drawn down at the National Bank of Oman as follows:

1.	Centreplace Trading	22 February	$1.6 million	1. Interconsult Ltd
		24 February	$0.9 million	
			$2.5 million	
2	Forward Marine Trading	27 February	$1.3 million	2. Tavoy
		27 February	$1.2 million	
			$2.5 million	

Both companies are incorporated in St Kitts and as noted in our Audit Committee report of November 1989, both relate to the same customer but have not been reported to the Board. Despite disbursement in February, Central Credit Committee approval was not given until September.

Price Waterhouse

12 January 1990

APPENDIX 2(2)

Mr SM Akbar
Bank of Credit and Commerce
International (Overseas) Ltd.
PO Box 1359
Grand Cayman

Dear Mr Akbar,

Further to our conversation yesterday afternoon I enclose with this letter a memorandum of information that we require in connection with our reviews of lending to the Gulf Group and lending to Offshore companies through Grand Cayman, Panama and Nassau.

The total of these exposures is very significant to the BCCI Group. The information or documentation that I have requested is essential to enable us to have a full understanding of this lending and to be able to conclude on its validity and recoverability.

You will observe that many of the points I have already put to you in our meetings in November. Unfortunately the information that has been supplied in answering these questions is not sufficiently detailed and I have repeated the questions with some further explanation of our requirements.

I look forward to discussing these exposures with you further.

Yours sincerely,

John A. Guy

JAG/sd

encl.

Gulf Group/Pilot Petroleum/Offshore Lending

ULF GROUP

Exposure to the Gulf Group has increased from $336m at 31 March 1989 to $405m at 31 December. Fees and charges for 1989 amount to approximately $76m.

The balance at 31 December 1989 represents

	$'m	
Balance at 31 March 1989	336	(inc. fees + charges 20m)
Fees and charges for 9 mth.	56	
Other drawdowns (net)	13	
	405	

At 31 March 1989, 1989 fees and charges had not been paid. In order to show that 1989 fees and charges have been paid the balance at 31 March 1990 should be reduced to 329m - before the application of interest and charges in 1990.

In order to assess the collectibility of such a large exposure it is necessary to fully understand the performance and operations of the Gulf Group. We have been supplied with audited financial statements of the Group at 31 March 1989. This provides us with the basic data but we need more information to fully understand this exposure:

(1) Are the following entities consolidated within the Gulf International Holdings S.A. Group?

1. - Pilot Petroleum (incorporated in Liberia)

2 - Marcotrade International Ltd. (incorporated in Cayman Islands)

3 - Gulf Pancontinental Inc. (incorporated in Liberia)

4 - Gulf Offshore & Coastal Services Limited (incorporated in Liberia)

5 - Harpoon Maritime (incorporated in Liberia)

6. - Hadron Maritime (incorporated in Liberia)

7 - Martel Shipping (incorporated in Liberia)

8 - Mandial Shipping (incorporated in Liberia)

9 - Marine Equipment Inc. (incorporated in Liberia)

10 - Banafin Trading and Transport Inc. (incorporated in Liberia)

They do not appear in the financial statements of Gulf International Holdings. We must therefore assume that they are not consolidated. If any of these are consolidated, this should be confirmed by the auditors to Gulf International Holdings.

(2) In order to assess the indebtedness of GIH to other banks and to reconcile BCCI's exposure to that shown in the GIH financial statements at 31 March 1989 we require a breakdown of the following balances shown in the GIH financial statements:

	$
Bank overdrafts and loans	267,507,588
Long term loans and obligations under finance leases	186,136,242

This should be supplied by GIH management or by their auditors.

(3) Note 7(a) to the Financial Statements refers to US$66,261,690 of loans being secured by mortgages against vessels. In order to assess which of the Group's assets are given as security for other parties, we require the following infomation:

- List of vessels owned by GIH (or its subsidiaries) with age, book value and current market value.
- Details of which of these vessels are mortgaged
  - (i) to BCCI
  - (ii) to other banks.

(4) Note 7(a) to the Financial Statements refers to US$20,745,629 loans being secured by other assets of the company. The exposures to Unimarine Bulk Transport, Tradinaft SA and Gulf International Holdings (totalling $195m at 31 March 1989) are secured by Debentures. We therefore seek clarification from management of Gulf Group or its auditors as to why these exposures are not disclosed as secured.

(5) Note 7(a) to the Financial Statements also refers to significant foreign exchange lending to the Gulf Group that is secured on property and other assets. We require clarification as to the status of these charges vis a vis charges registered by BCCI.

(6) Note 9 to the Financial Statements refers to Guarantees given by the Group of $136,067,900. We require an analysis of these guarantees from GIH management or their auditors to ascertain whether guarantees given by GIH to the following companies are included?

1. Pilot Petroleum
2. Marcotrade International Limited

Also we would like to know the nature of other guarantees given and their standing vis a vis the guarantees given above.

(7) In order to assess the performance and value of the underlying companies within the Gulf Group and with whom the bank has exposure, we should like to see the audited financial statements of the following companies at 31 March 1989:

(1) Gulf International Holdings (unconsolidated)

(2) Unimarine Bulk Transport Inc.

(3) Tradinaft S.A.

(4) Marcotrade S.A.

(8) The financial statements of GIH only give information to 31 March 1989. Given that we must assess the collectibility of the Gulf Group lending at 31 December we require to see more recent information. Furthermore with the increased exposure since 31 March we need a better understanding of the recent financial performance of the Gulf Group.

We would therefore like to see financial statements for each of the major Gulf Group companies at 30 September 1989 together with the consolidated position.

The loan agreements signed with the Gulf Group allow for financial information to be provided within 60 days of the quarter end.

In addition we would like to see cashflows and projections of the Gulf Group that will enable us to assess the ability of the Group to service its overdrafts and repay its loans in the future.

BCCI have some significant exposures to companies that do not appear to e consolidated within GIH.

	$'000	
1. Gulf Pancontinental	4,070	
2. Gulf Offshore and Coastal Services Limited	2,923	
3. Pilot Petroleum	20,550	
4. Marcotrade International Ltd.	54,840	(overdraft)
5. Marcotrade International Ltd.	32,894	(loan)
6. Harpoon Maritime	3,041	
7. Marine Equipment Inc.	3,952	
8. HHMM	39,036	
9. Banafin Trading	1,055	(est.)
	162,361	

(1) We require to see audited financial statements for these companies or financial statements approved by management, where audited statements are not available.

If such financial statements are not available then we would like BCCI to request that financial statements are prepared at least for the exposure in excess of $10m. The turnover through Pilot Petroleum and Marcotrade International Ltd. is signficant and could only be controlled if financial records were kept. It should therefore be possible to prepare financial statements.

(2) The security given for the overdrafts to Pilot Petroleum and Marcotrade International Ltd. are as follows (at 31 December)

	$'000	
-Assignment of receivables (Pilot Petroleum)	30,000	30.0
-Hypothecation of Stocks (Marcotrade Int'l Ltd.)	40,000	88.6
- and assignemnt of receivables (Marcotrade Int'l Ltd.)	48,600	

We would like to see evidence supporting these assignments and receivables at 31 December in greater detail than that currently provided. We would also like to see evidence of these receivables/stocks being paid and their proceeds reimbursed to the accounts of Pilot Petroleum and Marcotrade International.

(3) In addition to the lending to Pilot Petroleum the bank has exposure to the shareholders of Pilot Petroleum ($10.9m at 30 September 1989). This lending was originally booked in CFC and transferred to Panama in 1985. New loan agreements (undated) totalling $10.1 million have been signed by the representatives of Intergulf Holdings, Ons Genoegen and BV Food Investors.

To assess the collectibility of these advances we, again require to see the financial statements of Pilot Petroleum. We also require the financial statements of BV Food Investors, Ons Genoegen BV and Intergulf Holdings with a full understanding of their business and their relationship with Pilot Petroleum.

We require evidence from the beneficial owners of BV Food Investors, Ons Genoegen BV and Intergulf Holdings BV that they will support and sustain these companies.

We also seek clarification of the connection between this Pilot Petroleum (which is incorporated in the United States) and exposure noted above which is to a Liberian company.

(4) We do not know the beneficial owners of and have seen no evidence to prove the beneficial owners of:

1. - Gulf Pancontinental
2 - Gulf Offshore and Coastal Services Limited
3 - Pilot Petroleum (except for shares held by BV Food Investors, Ons Genoegen and Intergulf Holdings
4. - Marcotrade International Ltd.
5 - Harpoon Maritime (H)
6. - Martel Shipping (M)
7 = Mondial Shipping (M)
8. - Hadron Maritime (H)
9 - Banafin Trading *
10 - Marine Equipment Inc.

Mr. Abbas Gokal has signed loan agreements for all these companies except HHMM (for which we have seen no loan agreement) and Banafin Trading.

We require confirmation from Mr. Abbas Gokal of the beneficial owners of these companies and their relationship with the Gulf Group.

(5) Please clarify why the Board approval for lending to Pilot Petroleum says that the company is domiciled in the U.S.A. when it is a Liberian company.

(6) Please clarify why Central Credit Committee approvals refer to Marcotrade International Ltd. as a Swiss Company when it is registered in Grand Cayman.

OFFSHORE LENDING

The following loans have been provided in Cayman, Nassau and Panama to offshore companies:

Company	Location	Balance 31 Dec 1989 $'000	Balance 30 Sept 1989 $'000
1. Serval Trading Inc.	Cayman	5,096	4,835
2. Tallowcraft Shipping Ltd.	Cayman	5,604	6,597
3. Middle East Tankers	Cayman	6,657	6,294
4. Blue Sky Bay Marine	Cayman	3,890	3,146
5. Pirion Shipowners Ltd.	Cayman	2,495	2,355
6. Dolmer Shipping Inc.	Cayman	1,734	1,633
7 endive Enterprises Inc.	Cayman	6,853	6,502
8 bin Commercial	Cayman	4,634	4,398
9 Tarakot Trading Inc.	Cayman	4,918	4,173
10 Comar Enterprises Ltd.	Cayman	3,297	3,105
11. Meltam Inc.	Cayman	10,012	8,650
12. Tallowcraft Shipping	Cayman	4,573	6,386
13. Gambas Maritime	Cayman	6,062	5,761
14 Tambriola Maritime	Cayman	4,893	4,641
15 Es con Navigation SA	Cayman	1,747	1,646
16 Meacrest Marine & Transport	Cayman	4,736	4,496
17 Nautique Shipping	Cayman	3,963	4,178
18 Pironi Marine Transportation	Cayman	5,648	5,338
19 Byron Bay Shipping	Cayman	3,058	3,262
20 Misr Gulf Offshore	Cayman	2,741	2,870
21 Intergulf Holdings	Cayman	2,679	2,818
22 Fidelity Holdings	Cayman	3,654	3,818
23 Southwold Maritime	Cayman	11,460	10,689
24 Grantley Trading	Cayman	1,396	1,336
25 Pentrin Transportation	Cayman	1,163	1,113
26 Parkray Commercial	Cayman	1,628	1,559
27 Byword Ltd.	Cayman	3,852	3,679
28 Elystan Trading Ltd.	Cayman	2,753	2,628
29 Sigale Enterprises	Cayman	4,747	4,497
30 Emplate Ltd.	Cayman	1,651	1,577
		127,594	124,660

Company	Location	Balance 31 Dec 1989 $'000	Balance 30 Sept 1989 $'000
Demray Trading	Panama		3,454
2. Frenda International	Panama		1,437
3. Sindega Trading Inc.	Panama		4,418
4 Onida Trading	Panama		6,718
5 Chinnok Trading	Panama		7,753
6. Videro Shipping	Panama		899
7. Videro Shipping	Panama		1,265
8. Melrose Maritime	Panama		2,297
9 Aspac Trust	Panama		1,177
		Not Known	29,418
1. [redacted]ja Trading SA	Nassau		5,028
2. Bitola Limited	Nassau		5,038
3. Tomar Shipping Inc.	Nassau		1,224
4 Bell Harbour Shipping	Nassau		1,989
5 Al Inshirah Shipping	Nassau		3,525
6 Al Mazan Maritime	Nassau		1,664
7 Mercantile Marine	Nassau		965
8 Merlin Navigation	Nassau		967
9 Loupmer Shipping	Nassau		1,046
10 Voyager Navigation	Nassau		1,766
11 Tomar Shipping Inc.	Nassau		3,772
12 Bell Harbour Shipping	Nassau		1,203
1 Mazan Maritime	Nassau		3,997
Loupmer Shipping	Nassau		1,077
		Not Known	37,261

53 Repeat names: Actual no: 47

We have included loans in Panama and Nassau in this list because these locations refer to Mr. S.M. Akbar as being the account officer for these exposures.

Security for these loans are normally hypothecations, assignments or ships.

Whilst there are some exceptions, the balances on these accounts have generally increased since the prior year and turnover has decreased. The valuations of ships provided as security have improved.

We have a number of concerns regarding these accounts:

(1) Proving the beneficial owners of the companies.

(2) Collectibility.

(3) Understanding the business of these companies and their interrelationship.

(4) Assessing the value attributable to security given as hypothecations or general assignments.

(1) Beneficial owners

Whilst you have provided us with details of the beneficial owners, we have seen no evidence to prove such ownership. Because this form of lending involves instructions and representations from nominees it is essential that we obtain evidence of the ultimate beneficial ownership of these companies. Furthermore we are relying upon the wealth of these owners to support the companies. This evidence of ownership should preferably be in the form of a statement from the beneficial owner or alternatively we could consider evidence from the Trust Companies that administer these companies.

(2) Collectibility

Most of the offshore facilities are in excess of limits or have exceeded their limits at some point during the year.

Whilst operating as overdrafts, the accounts generally have not experienced significant turnover and do not fluctuate below a relatively high minimum level.

Turnover is typified by one or two transactions where the drawdown is followed by a repayment a few days later or vice versa.

Interest is generally not being serviced on these accounts.

As a consequence of the above we have difficulty in assessing this lending - particularly in the case of those loans that are not secured on ships.

We require evidence that these offshore companies have sufficient capacity to generate business that will enable these overdrafts to be serviced and to have adequate turnover.

We would like to see financial statements prepared for the above companies to assess their profitibility, capital base and viability. We would also like to see additional information either from these companies or their agents outlining their future business plans.

We note that the standard loan agreement requires:

"a notarially certified copy of the most recent financial statements of the Borrower and of the Guarantor" to be supplied prior to disbursement of funds.

In addition the terms of your debentures with these companies require them to furnish the Bank with audited financial statements annually and "other financial statements in respect of its assets and liabilities as the Bank may reasonably require".

We trust that it will therefore be possible to arrange for financial statements to be provided.

APPENDIX 2(2)

(3) Interralationship of offshore companies

We have previously discussed the operation of these companies and you have informed us that these companies are not controlled by the Gulf Group although do some business with the Gulf Group. We seek clarification of the following:

i) An understanding as to why all the ships held by these companies are managed by Gulf East Ship Management Limited.

ii) Why do most drawdowns and repayments flow through the following companies?

1. Cedar Investments and Finance Corp.
2. Transgulf Finance Co.
3. Mira Investments Trust SA
4. Conrad Finance Inc.
5. Granite Financial Trust Inc.
6. Mentesta Finance and Trust SA

What is the business of these companies? What is the relationship between these companies? Who controls these companies?

iii)- (a) The address of Conrad Finance Inc. is given as c/o E'Estoril, 31 Avenue Princess Grace, Monaco.

- This is also the address of United Shipping Group SAM a subsidiary of Gulf International Holdings.

-(b) The address of Mira Investments Trust SA is given as P.O. Box 604, 2535 Luxembourg.

This is also the address of Intercontinental Shipping and Trading Services S.A. an associate of Gulf International Holdings.

Could you please provide a paper explaining the relationship between the offshore companies, the paying agents and the Gulf Group outlining the nature of their business relationships, the systems for recording and controlling the business and the nature of the cashflows between these entities.

APPENDIX 2(2)

iv) We understand from your discussions with Nick Freeland that the companies noted in (ii) above are operating as paying agents. Given this, can we not receive better information from these companies concerning the offshore lending. For example, can they not prepare financial statements for these companies and provide details of their shipping and trading activity?

v) What is the relationship between this lending and similar lending extended to offshore companies in Bahrain and NBO in April 1989. The new loans extended there had paying agents common to the Cayman lending.

(4) Security

For many of these companies the only security are hypothecations of stocks and assignments of receivables.

Could you please provide (possibly through the paying agents of these companies) further information to support the valuations of the stocks and receivables at 31 December 1989 that pertain to these companies. Is it possible to break these down by Bill of Lading or customer name and after the year end sight their subsequent recovery through the bank accounts of these offshore companies?

APPENDIX 2(3)

OUR FACSIMILE TELEPHONE NUMBER IS BAHRAIN 271459

PW LONDON (CHRIS COWAN) PRIVATE AND CONFIDENTIAL

location PW BAHRAIN (TERRY HOPCROFT) TVH/gor/M226

3 JANUARY 1990

EARLY WARNING - BCCI BAHRAIN

I am writing to advise that we have been unable to obtain all the information and explanations that we consider necessary in respect of the following amounts which are booked as loans in the accounts of BCCI Bahrain at 31 December 1989:

	Name of customer	Principal amount ($000s)	Interest recognised in the 1989 profit & loss account ($000s)	Total
1 (A)	Audley Mercantile	2,500	226	2,726
(B)	Brigadier Investment	4,000	367	4,367
(C)	Metropole Trading	3,500	317	3,817
		10,000	910	10,910
2 (A)	Fallah Mansouri	5,000	264	5,264
(B)	Saif Ghumran	5,000	284	5,284
		10,000	548	10,548

(1) In respect of the Audley Mercantile/Brigadier Investment/Metropole Trading amounts:

(i) We have seen no evidence as to the beneficial owner of these companies.

(ii) We have been orally advised of the name of an individual beneficial owner. However, this information conflicts with the credit analysis in the credit file. (There are further conflicting comments in the credit analysis of the credit file also).

TOTAL NUMBER OF PAGES:

IF YOU DO NOT RECEIVE ALL PAGES OR HAVE A PROBLEM WITH RECEIPT PLEASE TELEPHONE BAHRAIN 233266

(iii) The amounts disbursed were not paid to the abovementioned companies, but to other companies whose identities, and their relationship to the abovementioned companies, is unknown to local management

(iv) In respect of these companies, the credit files have no details and local management have no knowledge of (a) the Directors and (b) who are the authorised signatories. Payment was made on the instructions of three individuals (Messrs Mohammed, Raja and Ali respectively) whose relationships to, and authorities in, the abovementioned companies is unclear. Local management have no idea where management reside or where the books and records are kept. The bank statements are addressed "UK" yet management inform us they are posted to various offshore addresses.

(v) No financial information is available. No references were obtained.

(vi) We have received no confirmation of balance and the bank has no evidence of net worth.

(vii) We are unclear whether the credit committee approved the amounts before they were disbursed.

2 In respect of the Fallah Mansouri and Saif Ghumran amounts:

(i) The credit files state that these amounts were advanced for projects. However;

(a) the bank has little or no knowledge of the projects or of the other individuals involved in the projects
(b) the funds were advanced immediately whereas the projects are not due to commence for several years.

(ii) The amounts disbursed were not paid to the abovementioned customers and local management are not aware of the identities of the individuals to whom the funds were disbursed. No written payment instructions were received from the customers.

(iii) The credit committee approved the loans seven months after the funds were disbursed.

(iv) The first installment in the Saif Ghumran exposure is in default.

(v) The bank obtained no bank references, no financials and no verification to support the alleged net worth of the abovementioned individuals.

(vi) No audit confirmation of the balances has been received.

For these reasons we are at present unable to conclude in the validity or recoverability of the abovementioned amounts. Unless we receive the above information it will be necessary to qualify our interoffice opinion and the local statutory accounts to the Bahrain Monetary Agency. We have informed local management in respect of the above. If you have any detailed questions please do no hesitate to contact me.

Regards,

Tarry

cc: 1. Mr Ali Abbas - BCCI Bahrain
2. Mr Ashraf Nawabi - BCCI Regional Office, Dubai
3 Mr Simon Chapman - PW Dubai

Price Waterhouse

14 February 1990

APPENDIX 2(4)

STRICTLY PRIVATE & CONFIDENTIAL

BY HAND

Mr S Naqvi
Bank of Credit and Commerce International
100 Leadenhall Street
LONDON EC3A 3AD

Dear Mr Naqvi,

I thought that it might be helpful to summarise in this letter issues arising on the major customer accounts which we have discussed in the last few weeks so that appropriate attention can be given to their resolution.

1. CCAH related balances

The Rulers of Fujeirah and Ajman have both returned to us balance confirmation letters rejecting information shown concerning loans totalling $270 million at 30 September 1989 secured on CCAH shares. In connection with these accounts:

1) You are to meet the customers concerned to understand the nature of their disagreements.

2) You are to provide us with your files on these customers with details of the recent transactions across their accounts.

We place heavy reliance upon confirmation procedures and where disagreements do arise we need to investigate the reasons why these occur and the implications, if any for other accounts. In these particular cases I expect that we will need direct access to the customers concerned to understand the extent and implications of any disagreement.

Satisfactory balance confirmations have been received from Mid Gulf Rubstone and Shorafa, the remainder are outstanding. I will let you know when the others are received.

As a separate matter we will need to evaluate the security value which can be attributed to the CCAH shares, taking into account the disposal plans.

14 February 1990
Mr S Naqvi
Page 2

(2) Sheikh Khalid bin Mahfouz

1) New loans totalling $146 million were drawn down during the year. These amounts appear to be unsecured, although you had thought that shares in NCB had been pledged as security and you are to pursue this. We will need to discuss the loan details with you at some stage but in the meantime would like to ensure that a proper balance confirmation, including details of any security and pledged deposits, is obtained.

2) Our work on share capital shows that 375,000 shares of BCCI Holdings were allotted to and subscribed by Mahfouz nominee companies in April 1989, although acceptance letters or other evidence from the shareholders are not on file.

In the present circumstances, when there is an expectation that Mahfouz is to dispose of his shares and public speculation that he may already have done so, confirmation by him of his shareholding will overcome concerns about his shareholding and the purpose of the loans referred to above.
I will provide you with a draft confirmation request when we next meet.

(3) AR Khalil

1) There has been little contact with the borrower over the past two years or more. The borrower holds shares in both BCCI Holdings and CCAH which you are seeking to transfer to Sheikh Kamal Adham so that the loans outstanding of $150 million can be repaid either in part or in full.

2) Our work on share capital shows that 57,748 shares of BCCI Holdings were allotted to and subscribed by Mr Khalil in 1989 although there is no acceptance letter or other evidence on file from him and given our understanding of the relationship with him over recent years we find it surprising that he has increased his investment.

There will be some difficulty in assessing recoverability of loans to Mr Khalil if the proposed transaction with Sheikh Kamal Adham does not proceed before finalisation of the accounts.

As you are aware this is an account for which we have not received a confirmation for some time, therefore his acknowledgement of the debt will be important evidence this year.

14 February 1990
Mr S Naqvi
Page 3

(4) Sheikh Mohammed bin Rashid Al Maktoum

At 31 December 1989 this customer had loans outstanding of $124 million and deposits of $109 million. This was an account for which we did not receive a confirmation last year and where our review of significant transactions reveals absence of customer authorisation for the drawdowns in 1988. As discussed you are to provide us with your file with details of the transactions concerned. I am unsure about the status of the balance confirmation request but clearly it will be important to receive appropriate confirmation from him as we cannot let another year go by without one.

Our work on share capital shows that 61,354 shares of BCCI Holdings were allotted to and subscribed by Sheikh Mohammed nominee companies in April 1989 although acceptance letters or other evidence from the shareholders are not on file and the share certificates are still held by yourselves. Evidence of customer authorisation for the rights issue or confirmation of his shareholding will be required.

(5) Gulf Group and Offshore companies

Our offices in Cayman and Bahrain have raised questions which are still unanswered concerning loans to the Gulf Group and to offshore companies totalling $405 million and $210 million respectively. The questions are important to our assessment of recoverability and were set out in detailed memoranda dated 12 January 1990 and 3 January 1990, copies of which we have provided to you, Mr Ahmed and Mr Rahman as well as to the local and regional managers.

Other major Cayman and International loans

The issues are well known and in response to our enquiries some detailed information has now been supplied. However, information is still being sought about the collectability and authorisation of the loans, the repayment terms, and the financial standing of customers. We will discuss these with you once we have had the opportunity to review all of the information which is currently being provided by Mr Akbar and his team, although we need to be satisfied that their assessment of provision requirements is realistic; it seems to us that substantial increases may be necessary.

14 February 1990
Mr S Naqvi
Page 4

I am concerned about the number of outstanding issues on major accounts and the time that it may take to resolve them satisfactorily. Given this situation I doubt that the normal reporting timetable can be adhered to and suggest that the likelihood of a delay be brought to the attention of your senior colleagues and the audit committee. Indeed, you may even feel it appropriate to copy this letter to the audit committee.

Yours sincerely,

CI Cowan

CIC/hh

Senator KERRY. Document No. 4 is a supplementary document to document No. 3. It is a supplementary briefing paper from the, for your task force which came from Price Waterhouse regarding the problems in the bank.

[The information referred to follows:]

STRICTLY PRIVATE AND CONFIDENTIAL

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER
FOR THE INDEPENDENT TASK FORCE ON
PROBLEM LOANS AND RELATED ISSUES

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Kuwait International Finance Company S.A.K. (Kifco)

Shareholders:	%
BCCI Holdings (Luxembourg) SA	49
ICIC (Overseas) Ltd	12
Others	39
	100

1 BACKGROUND

Kifco is effectively BCCI's banking arm in Kuwait, although we understand that certain undertakings have been given to the Kuwaiti regulatory authorities to the effect that BCCI does not control Kifco. At 31 December 1989 Kifco had total assets of $195.7 million and shareholders' funds of $16.9 million.

Mr SM Akbar, General Manager in Grand Cayman, was we understand, once General Manager of Kifco. He has close links with the Kifco operations.

2 CONCERNS

(1) Absence of Critical Information

Kifco is almost entirely funded by BCCI (Overseas) Ltd through placements from Grand Cayman. At 31 December 1989, however, placements recorded by BCCI (Overseas) with Kifco are not consistent with the financial statements of Kifco:

Per Kifco: time deposits with banks	$6.1m
Per BCCI (Overseas): acceptances from Kifco	$9.3m
Per Kifco: term deposits taken	$173.4
Per BCCI (Overseas): placements with Kifco	$204.0

Price Waterhouse are not the auditors of Kifco. The incumbent auditors (Anwar Al-Qatami & Co) have completed a questionnaire and provided certain financial information to us. This information is, however, not sufficient for us to review the make up of the Kifco lending, and we have consequently raised a number of queries with the auditors in a telecopied letter of 15 February 1990. We have not yet had a response to this letter.

In order for us to ascertain whether any Kifco loans have been extended for the purpose of servicing BCCI lending elsewhere we require evidence of the destination of all significant drawdowns during 1989.

We also require a detailed analysis of the Kifco loans portfolio in order to be satisfied that there is no exposure common to BCCI.

Stockings

① RICCO (1) D/To.

② BCP : (3)

③ SDCC : (4) G/C 14.7 — 1.0 on the SECIF

Bolus 4.8

19.5

I/C 8.3 27.8 — 25% of CCC Hdqs / CCC Financial Limits

HBPM : 25.5

④ Hammond (5)

Bcc — 48.8 — -H(Gibbs) — Discussed about BCC(M) (Pun 0.8m)

I/C — 60.9 — -2-6 in the BCC(H)

— the CCPH

⑤ Scigala (9)

G/C — 13.9 20.9 — - (Including allic impregnated pad G/C : 7.7)

Bolus — 6.3 < 4.0 4.5 8.5 Rate — - Infusion : 3.5 + 0.2 = 3.7

BCC(E) — 1.6 — 1.8 — - LUK : 2.0 + 5.250 = 7.250

21.5 31.2 (Pun mid 3.7 = 27.5)

I/C 12.9

⑥ Numbered A/C (11) 13.9

(Thrombin / Allergy history?)

⑦ G. Hanson / W. Chang (12) I/C 75.4 + 27.8 = 103.2 — BCC 289.3

(Regd w. 89 10-90) Regd WSSSI for in Bcc(H)

WP: 2.5 in the Bcc(H)

GP: (Hands all Capsid / Chang Pain on chem

Includes 111,709 Rx of Regmin in Bcc (Trimethoprim to GP)

⑧ GI Surgeon Referr (13 cases) (14) — 41.3 Comp — 29:1 Over — (Aug/Sep) w.1 UK 6.0 +

(183)

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Kuwait International Finance Company S.A.K. (Kifco) - continued

(2) Other concerns

We need a better understanding of the IZ Company for Exchange based in Kuwait. We do not know whether this company is associated with Kifco. The IZ Company for Exchange has been the source of loan repayments in 1989, where we now have suspicions as to the propriety of the transactions.

We have requested access to the records and management of Kifco in order to pursue our own enquiries but to date this has been denied.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Banque de Commerce et de Placements SA (BCP)

Shareholders:	%
BCCI Holdings (Luxembourg) SA	15
ICIC Foundation	35
ICIC Staff Benefit Trust	35
Thesaurus - Continental Effekten Gesellschaft	15
	100

1 BACKGROUND

BCP is regarded as BCCI's banking representation in Switzerland although it is not a subsidiary of BCCI. The Swiss authorities did not accept Arab ownership due to associated reciprocity problems and hence, shares are held by the ICIC entities. At 31 December 1989, it had total assets of $311 million and shareholders' funds of $29 million.

2 CONCERNS

(1) Absence of critical information

Swiss secrecy laws have prevented us from being provided with information relating to customer accounts by the incumbent auditors.

At 31 December 1989, there were 5 loans greater than $5 million outstanding in BCP (compared to 3 loans at 31 December 1988). We do not know who these, or any other borrowers in BCP actually are.

We require evidence of the identity of these borrowers in order to be satisfied that there is no exposure common to BCCI that should be considered collectively.

We also require evidence of the destination of the drawdowns on the large loans and other new loans advanced during 1989 to ascertain whether any BCP loans have been extended in order to service BCCI lending elsewhere.

We seek to ascertain the utilisation of $50 million paid to BCP Geneva on 20 October 1988 by BCCI and charged to the account of Sh Mohammed Bin Rashid al Maktoum. This drawdown was not supported by customer instructions.

We may also require more information on the source of funds received from BCP crediting certain loan accounts at ICIC.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Saudi Development and Commercial Company (SDCC)

$ million	31 December 1989	31 December 1988
Funded exposure - loans		
BCCI (Overseas) - Grand Cayman	14.7	15.1
BCCI SA - Bahrain	4.8	4.3
ICIC (Overseas)	8.3	8.2
Total lending	27.8	27.6
Funded exposure - NBFI		
BCCI (Overseas) - Grand Cayman	25.5	10.2
Total gross exposure	53.3	37.8

BACKGROUND

We understand that SDCC is owned by five Saudi Arabians. Its business includes investments, real estate and other lending within Saudi Arabia.

An original advance of $10 million was made through Grand Cayman for the purchase of 1 million shares in the Saudi Egyptian Company for Investment and Finance (S.E.C.I.F). The current loan balance in Grand Cayman represents this advance plus applied interest less $3 million in dividend income received between 1982 and 1985.

In addition, Grand Cayman has maintained short term placements with SDCC, the turnover on which has been much higher than the loan balances outstanding.

SECURITY

Security for the BCCI lending is the 1,000,000 shares in S.E.C.I.F. a Cairo-based company for which the 1988 financial statements show an underlying value of approximately $6.50 per share. ??

The security for the ICIC exposure are shares in CCL Holdings, representing 29%. CCL Holdings owns CCL Financial Group Plc.

CONCERNS

(1) Absence of critical information

No information has been made available to clarify the nature of SDCC's operations or its financial position. There are no audited financial statements or other financial information. We do not have adequate information to assess the underlying assets of SDCC.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Saudi Development and Commercial Company (SDCC) - continued

The shareholders of SDCC have not documented any undertaking to service and repay the facility.

No documentation has been provided in support of the repayment of $2 million during 1989.

(2) Irregularities in Approval Procedures

We have seen no Board approvals for either the loan facility or the NBFI placements.

There is no recent Central Credit Committee approval for the Bahrain facility and we have only seen approval for $15 million of the NBFI placements through Central Credit Committee.

(3) Reliability of Management Representations

Management undertook to secure the personal documented support of SDCC's shareholders for the purposes of the 1988 audit, including a formal full repayment schedule. This has not been received.

(4) Evidence of recoverability

Permission has not been granted for SECIF dividends to be remitted outside Egypt since 1987, and in any event these are not sufficient to service the lending or generate principal repayment.

There is no evidence to support the ability or willingness of the shareholders to repay the loans to SDCC.

The NBFI balances outstanding at 31 December 1989, matured in January and February 1990 and have been rolled over, with no customer correspondence, since maturity on a monthly basis. There is no evidence to indicate how these placements will ultimately be settled.

(5) Other concerns

A separate advance of $15.4m was made to SDCC from Kifco in January 1989. Local auditors report that this was approved only by the General Manager and the Chairman, that no security was taken, and that no customer correspondence was available. The balance was adjusted in April 1989. No further detail of this advance has been provided.

We understand that SDCC is essentially the bank's representation in Saudi Arabia although this is by no means clear.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

MM Hammoud

$ million	31 December 1989 BCCI	ICIC
Funded exposure:		
Investrade (USA)	5.8	neg.
Middle East Commercial Agencies	*6.2	7.6
Invesco S.A.L. — Jabali	*8.5	1.3
Pazcentro Investments SA	-	9.4
Rubstone Trading Corp. SA	*15.1	12.1
Daily Holding International SA	-	10.1
Cheynne International SA	-	1.9
Middle East Development	-	10.4
United Group for Trading and Projects	-	8.1
MM Hammoud - UK — R/Estate	0.8	-
MM Hammoud - Gibraltar — R/Estate	8.5	-
Hammoud/Kloss - Hamburg — R/Estate	3.9	-
	48.8	60.9

*Not recognised by BCCI as being exposure to MM Hammoud.

(1) BACKGROUND

MM Hammoud is a Lebanese businessman. We understand that he is principally concerned with property development in the US, UK, Canada and Lebanon.

He is also a significant shareholder in BCCI Holdings with 2,646,184 shares and is a shareholder in CCAH.

(2) SECURITY

The facilities granted by BCCI to Mr Hammoud in the UK, USA, Hamburg and Gibraltar are secured on property.

The lending to Middle East Commercial Agencies (granted by BCCI - Cyprus) is clean.

The lending to Rubstone Trading Corporation (granted by BCCI - Luxembourg) is secured on MM Hammoud's shares in CCAH.

The lending to Invesco SAL (granted by BCCI - Grand Cayman) is secured on property in Lebanon and Egypt.

The ICIC facilities are secured on 622,000 shares in BCCI Holdings (Luxembourg) SA.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

MM Hammoud - continued

(3) CONCERNS

(1) Absence of critical information

We have not been supplied with evidence of beneficial ownership of any of the companies purportedly owned by Mr Hammoud.

Whilst we have seen evidence to support security, there is generally little evidence to support drawdowns and ongoing communication with the customer.

(2) Reliability of management representations

BCCI management have represented to us that Invesco, Rubstone Trading and Middle East Commercial Agencies are not exposures pertaining to MM Hammoud. We are told by BCCI management that Rubstone is owned by K Rahal, and Invesco by IY Younes and K Rahal. PW Cyprus have told us that the lending to MECA is secured by the personal guarantees of the directors - Y Shehaddid, K Rahal and IY Younes.

ICIC management have represented to us that these companies are beneficially owned by Mr Hammoud. Indeed, in ICIC management accounts these facilities are grouped under the heading MM Hammoud.

(3) Evidence of recoverability

BCCI exposures

The exposures to MM Hammoud in the UK, Gibraltar and USA are performing and are adequately secured.

The lending to Middle East Commercial Agencies was extended to BCCI Cyprus in 1988. The ultimate recoverability of this amount is not known. The lending is guaranteed by the directors but we know nothing about their personal wealth.

The ultimate recoverability of the BCCI Rubstone Trading facility has been addressed in our report on lending secured on CCAH shares. However, no interest has ever been paid on this account.

The Invesco facility in BCCI has not been performing. The original advance of $7 million was allowed in order that a previous delinquent account to Mr M Jabali could be repaid (at a discount of $2.9 million). Management have established a provision of $0.8 million at 31 December 1989. We doubt the commercial reality of this lending - there appears to be inadequate security ($6-$10 million) to warrant a third party taking over the debts of Mr Jabali at commercial interest rates.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

MM Hammoud - continued

ICIC exposures

Management have been pursuing the borrower for additional security and a repayment schedule. These have not been forthcoming.

There is no evidence available to indicate how the loans at ICIC are likely to be reduced without the sale of BCCI shares.

(4) Other concerns

There remain too many unanswered questions about Mr Hammoud:

- the conflicting management comments concerning his exposures.
- The nature of Mr Hammoud's business in Lebanon (he appears to represent BCCI in his own capacity).
- the rationale for giving his CCAH shares as security for lending by Midgulf and Rubstone for no apparent consideration.
- his connection with delinquent accounts of BCCI such as the Jabali loans.

We require independent evidence supporting these exposures and evidence that MM Hammoud is the beneficial owner of 2.6 million shares in BCCI.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Saigols

$ million — 31 December 1989

	Gross	Interest in Suspense	Provisions	Repayments received post year-end	Net
Grand Cayman	20.9	(3.5)	(2.0)	(1.5)	13.9
Bahrain	8.5	-	-	(2.2)	6.3
BCC Emirates	1.8	(0.2)	-	-	1.6
Total exposure advised by BCCI	31.2	(3.7)	(2.0)	(3.7)	21.8
ICIC Exposure	12.9	-	-	-	12.9

(1) **BACKGROUND**

The principal members of the Saigol family have had facilities with BCCI for many years. Loans were transferred between family members when repayment was not possible, and the current borrowers have rescheduled the facilities many times, failing to keep to repayment arrangements.

All facilities have been rescheduled at least once again during 1989, and of five principal repayments due in the year, only two were met.

(2) **SECURITY**

All Saigol facilities are clean.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Saigols - continued

3 CONCERNS

(1) Evidence of recoverability

Evidence of recoverability of the Saigol loans have been based largely on receipts of funds in 1989 and 1990:

30 March 1989	-	$2.0 million	Habib Bank, Singapore
4 April 1989	-	$0.2 million	IZ Company for Exchange, Kuwait
3 January 1990	-	$0.4 million	IZ Company for Exchange, Kuwait
4 January 1990	-	$3.25 million	IZ Company for Exchange, Kuwait

We have seen no other evidence of the ability of the Saigols or Saigol businesses to service their lending or repay their outstandings.

We have been informed by management that representations previously given about the beneficial ownership of companies to which new loans were extended in Bahrain in 1989 have been false. The loans have been given, in part, to repay delinquent loans in other locations. We are now informed that these loans are connected to the Saigol family, although we are still awaiting a full explanation.

Although the Saigol loan balances have been regularly confirmed we have significant doubts about their willingness to repay the outstanding amounts, given the extent to which these accounts continue to be rescheduled. The involvement of the Saigols in relation to the improper Bahrain lending adds to our concerns.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Numbered account 11011103

$ million	31 December 1989	31 December 1989
Funded exposure	13.9	11.8

1 BACKGROUND

An amount of $11.2 million was drawn down in a Grand Cayman numbered account in November 1988.

2 SECURITY

This is a clean facility.

3 CONCERNS

(1) Absence of critical information

There is no documentation to support the advance.

(2) Reliability of management representations

In 1988, BCCI management in Cayman represented that the account was part of the exposure to the Ibrahim family. In 1989, management have represented, after first confirming the exposure as Ibrahim, that the loan should be classified as lending to Mashriq Holdings which is beneficially owned by the Ruler of Fujeirah. Mr Imran Imam responsible for the Ruler of Fujeirah account has not indicated to us that this account should be included within his total exposure. In fact, no analyses prepared by the bank have shown this account to be that of the Ruler of Fujeirah.

(3) Evidence of recoverability

There has been no activity on the account other than interest application in 1989. Given the lack of documentation supporting this exposure and the conflicting reports on beneficial ownership, we require further information in order to assess whether the loan is recoverable.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

The Pharaon Brothers

	Shares in BCCI Holdings (Luxembourg) SA at 31 December 1989	Loans outstanding at 31 December 1989 $ million BCCI	$ million ICIC
Wabel Pharaon	8,599,631	-	75.4
Dr Ghaith Pharaon	Unknown	288.3	27.8
		288.3	103.2

BACKGROUND

Wabel Pharaon is the brother to Dr Ghaith Pharaon a Saudi Arabian entrepreneur who has diversified business interests. Wabel Pharaon is also a businessman although we understand that his interests are primarily in Saudi Arabia.

Most of Wabel Pharaon's lending from ICIC was extended when Dr Ghaith Pharaon sold his shares in BCCI to Wabel Pharaon.

Mr HM Kazmi at ICIC holds power of attorney for Wabel Pharaon.

SECURITY

The only security for Wabel Pharaon's lending in ICIC is 2,500,000 shares in BCCI Holdings (Luxembourg) SA.

Dr Ghaith Pharaon's lending in ICIC is secured on his interest in the Attock Oil Group. His BCCI exposure is secured on shares and deposits although at least $130 million is clean.

CONCERNS

(1) Absence of Critical Information

Drawdowns are not supported by requests from the customers.

There are no loan agreements, promissory notes or correspondence with the customers at either BCCI or ICIC.

On 19 December 1989, $5.4 million was debited to the overdraft account of Dr Ghaith Pharaon in Grand Cayman, representing the purchase consideration for 111,709 shares sold by Suhail Faris Al Mazrui. There are no instructions from Dr Pharaon supporting this drawdown, nor any correspondence from the vendor of the shares.

Wabel Pharaon has provided no support for his repayments of $4 million in August 1989 and $10 million in 1990.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

The Pharaon Brothers - continued

(2) Reliability of Management Representations

In December 1987 we were assured by BCCI senior management that we would receive confirmation that Wabel Pharaon was the beneficial owner of BCCI shares - this was not forthcoming.

(3) Evidence of recoverability

Dr Ghaith Pharaon's exposure in BCCI is $100 million in excess of limits and exceeds 10% of the capital base of the bank. It is consequently a cause for concern. Dr Pharaon has provided security of approximately $150 million and is known to have significant net worth. Nevertheless, the clean exposure has increased to about $130 million, partly because of a reduction in Dr Pharaon's deposits ($20 million) and a decline in the value of security given ($20 million). We require evidence that Dr Pharaon has the ability to service and repay this clean lending.

He has demonstrated his willingness to repay some of his loans by reducing this exposure in ICIC by $29.2 million following the sale of Tradigrain to British Petroleum.

Wabel Pharaon has provided some evidence of ability to reduce his lending by making repayments of $14 million since 30 June 1989. However, we have no net worth statement and no understanding of his ability to repay. We do not know the extent to which he might be supported by his brother. It is unclear how his borrowings may continue to be reduced, other than by the sale of BCCI shares.

(4) Other concerns

The sale of Mazrui's shares in December 1989 has not been recorded in the shareholders' register at 31 December 1989, or in January or February 1990. This causes doubt as to the accuracy of the shareholder records. In December 1989 Wabel Pharaon acquired 105,321 BCCI shares from Mohamed Taufiq Jiddau according to the Luxembourg share register. We are unclear as to how this acquisition was financed and why Wabel Pharaon should want to purchase further shares in BCCI when he is trying to reduce his loan exposures in ICIC.

We therefore require independent confirmation by Wabel Pharaon and Dr Ghaith Pharaon at 31 December 1989 of their shareholdings, the shares pledged as security and of their outstanding liabilities at that date.

[illegible] HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Grand Cayman Risk Facilities

			Gross Exposure	Interest in Suspense	Provision	Net Exposure
	Accounts where cash has been received:					
1	Haider Bin Khamis	100%	3.6	-	-	3.6
2	Lisa General	100%	5.1	-	(1.0)	3.6
3	Al Gad ~ Acc(s)	33%	4.3	(1.2)	-	3.1
4	Al Haji Dasuki	100%	0.7	-	-	0.7
	Other accounts not subject to litigation					
1.	South Gulf Trading	100%	2.0	-	(1.7)	0.3
2	A de Vega	100%	2.6	-	(1.3)	0.8
3.	Winterwood Associates	30%	3.5	(0.7)	-	2.8
4.	Charles Howard	-	2.2	(0.5) (Alt 2.1)	-	1.7
5	First Arabian Corp	100%	5.8	(2.1)	(1.0)	2.7
6	Al Haji Daura (Lybia)	-%	0.4	(0.1)	-	0.3
	Accounts subject to litigation					
1	Abbas Mosselhy	50%	4.5	-	2.8	2.3
2	Stinnes (Acc(s))	33%	7.3	-	(1.0)	6.3
12			41.3	(4.1)	(6.0)	29.1

1 BACKGROUND

It has generally been the case that delinquent accounts at various locations have been transferred to Grand Cayman and these make up the Cayman risk facilities.

2 CONCERNS

(1) Evidence of recoverability

Accounts where cash has been received during 1989:

No advice was received for the remittances of cash against these accounts. Given the evidence now received regarding cash receipts on other delinquent accounts in the BCC group, these balances (totalling $11 million) are an area of concern, which in the absence of independent evidence, are likely to require full provision.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Grand Cayman Risk Facilities - continued

Other accounts not subject to litigation:

Management have already decided to provide fully against the facilities of South Gulf Trading, First Arabian, and A De Vega to the extent of the unsecured balance.

The loans to Winterwood and Howard, although partially secured, have shown little performance and BCCI have made no effective effort to regularise the facilities. There is no rationale for their being booked in Grand Cayman, and we believe that the original loans were extended through Treasury connections with AR Khalil. We remain unconvinced that these loans will ever be repaid, nor that the bank will enforce its security.

Accounts subject to litigation:

Although we recognise that there could be recoveries from the litigation, it would be prudent to provide in full against these accounts in 1989. Management have initially determined a further provision of $1.5m against the Stinnes facility.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Ibrahim family

$ million	31 December 1989	31 December 1988	31 December 1987
Gross exposure	131.7	210.8	125.2

1 BACKGROUND

The Ibrahim family, headed by Sh Abdul Aziz Al Ibrahim, have maintained significant loan and deposit balances with BCCI for a number of years. At 31 December 1989 family deposits total $152 million.

2 CONCERNS

(1) Absence of critical information

The loans are advanced against deposits pledged to the extent of $152.4 million, but there is no formal lien over the deposits.

We do not understand the rationale for maintaining both loans and deposits of the levels concerned. (Interest is charged at the same level as deposit interest is paid for loans to the value of 50% of the deposits held).

Deposits are held in the names of the various family members, not all in the name of Sh Abdul Aziz. This detracts from the comfort gained from the deposits maintained because in particular no cross guarantees exist.

Independent direct confirmation from the borrower of all balances is essential given the absence of formal lien.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Faisal Saud Al Fulaij

$ million

Funded Exposure:	31 December 1989 BCCI	ICIC	Security
Faisal Al Fulaij	-	1.5	FIIL Shares
Middle East Investment Company	-	4.9	CCL Shares
Middle East Investment Company	-	1.1	CCL Shares
Faisal Al Fulaij	-	8.8	BCCI (H) Shares
Faisal Al Fulaij	-	8.0	BCCI (H) Shares
Faisal Al Fulaij	-	4.4	Clean
Faisal Al Fulaij	-	0.3	Clean
Middle East Investment Company	-	0.3	CCL Shares
Faisal Al Fulaij	-	5.7	BCCI (H) Shares
Faisal Al Fulaij	7.4	-	CCAH Shares
Faisal Al Fulaij	87.9	-	CCAH Shares
Faisal Al Fulaij	7.3	-	CCAH Shares
Faisal Al Fulaij	10.3	-	CCAH Shares
	112.9	35.0	

1 BACKGROUND

Faisal Saud Al Fulaij is a Kuwait businessman. He is also Chairman of Kuwait International Finance Company SAK (Kifco)

2 SECURITY

FIIL: Faisal Al Fulaij owns 2% of FIIL which in turn owns Attock Oil International.

CCL: Through Middle East Investment Company, Faisal Al Fulaij owns $29% of CCL Holdings (CCL) which in turn owns CCL Financial Group Plc.

BCCI: Faisal Al Fulaij owns 26,439 shares in CCAH(post rights issue). He has pledged 5,976 shares as security to BCCI and a further 10,680 shares have been cross pledged by Sh Kamal Adham and Ali Mohamed Shorafa in respect of his borrowings.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Faisal Saud Al Fulaij - continued

3 CONCERNS

(1) Absence of critical information

There are generally no loan agreements, customer instructions or promissory notes supporting this lending. Balances have been confirmed. Shares are physically held by ICIC or BCCI as security.

(2) Evidence of recoverability

There has been very little performance on any of these accounts in recent years and exposures have been increasing through the application of interest and charges. The underlying investments are not generating cash dividends and Faisal Saud Al Fulaij is not meeting repayments or servicing charges from his own resources.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Prince International Holdings and International Medical Corporation (IMC) Group

$ million	31 December 1989	
	BCCI	ICIC
Funded exposure		
Prince International Holdings	13.7	46.3
IMC Group	91.9	-
	105.6	46.3

1 BACKGROUND

The IMC Group owns and operates the Cromwell Hospital. It is owned by the Abu Dhabi Ruling Family and a Foundation financed by ICIC Holdings - International Health and Welfare Foundation. The IMC Group has required support from BCCI and ICIC - through Prince International Holdings in order to meet its commitments. In 1987 a ten year plan was drawn up which would enable the Group's lending to be reduced to a reasonable level.

2 SECURITY

The BCCI lending is secured on the assets of the IMC Group including the Cromwell Hospital. The Prince International Holdings lending is secured on shares in the IMC Group.

3 CONCERNS

(1) Reliability of Management Representations

In March 1989 we were told by BCCI senior management that they were hopeful that the Abu Dhabi Ruling family would provide $10 million additional capital by 30 June and that the bank would deliver a request for additional capital in the summer of 1989. No additional capital has yet been provided although we are aware that discussions are taking place.

(2) Evidence of Recoverability

The underlying IMC project is unable to service its lending from BCCI. There is no source of income to repay the loans to Prince International Holdings. Repayment of the BCCI and ICIC exposures can only be assured by significant additional capital injections by the Abu Dhabi Ruling family. There is underlying security to the lending in the Cromwell Hospital project but given its unique nature this can only be realistically assessed by independent valuation.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Prince International Holdings and International Medical Corporation (IMC) Group - continued

(3) Other concerns

Correspondence that has been provided to us indicates that the Abu Dhabi Ruling family does not appear to be receiving up to date information in order to satisfy itself as to the ongoing viability of the IMC project. The project is dependent on the support of the Ruling Family and they should receive accurate and regular financial information.

Our concerns are more fully addressed in a letter dated 26 February 1990 to Mr Naqvi which is included as appendix I to this report, which indicates that financial support of the order of $100 million from the shareholders is likely to be required.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Al Haji Sultan Fadel

$ million

Funded exposure:	31 December 1989	31 December 1988
BCCI (Overseas) - Grand Cayman	12.2	11.8
BCCI SA - Bahrain	6.2	5.6
	18.4	17.4

1 BACKGROUND

Al Haji Sultan Fadel is an Omani businessman who controls WJ Towell & Co in Oman. He is Chairman of the National Bank of Oman (NBO) holding 9.9% of the shares in his personal capacity and a further 37% through NBO.

2 SECURITY

The loans are secured on 1,818,000 RO1 shares in NBO (9.9% of the issued capital).

3 CONCERNS

(1) Evidence of recoverability

The original advance in 1985 was for $15 million. Interest has not been serviced and consequently the increase in the outstandings represents unpaid interest.

Whilst there is value in the security it is unlikely to be enforced by BCCI.

We have not seen evidence of the ability of Al Haji Sultan Fadel to service his personal external lending. Whilst he does have personal wealth and a significant shareholding in WJ Towell & Co we do not know whether he has the cash flows to repay these loans.

(2) Other concerns

These loans were advanced to enable Al Haji Sultan Fadel to purchase shares in NBO. It is more realistic to treat these as an investment of BCCI and write them down to net asset value with no interest recognition. At 31 December 1989 this would require the loans to be written down to $3 million - $9 million.

APPENDIX I

26 February 1990

S Naqvi Esq
Bank of Credit and Commerce International
100 Leadenhall Street
London
EC3A 3AD

Dear Mr Naqvi,

I enclose a paper which we have produced concerning Prince International Holdings and the IMC Group.

It seems to us that the BCCI exposures to these entities have to be considered in the aggregate with those of ICIC, and thus the paper is based on this premise.

Clearly, as we have discussed previously, there is a need for a substantial capital injection into the project in order to achieve the proposed restructuring programme, and in particular to eliminate the Prince borrowings which we understand were always intended to be relatively short-term. Any such restructuring must also ensure that IMC is able to finance the residual borrowings out of its cash flows.

The objective of the paper is to quantify in approximate terms the likely shareholder commitment required to refinancing the project on the above basis, which is substantial; and to consider the possible alternative courses of action to enable us to be satisfied as to the collectibility of the outstandings due to the BCC Group and also to ICIC (Overseas) Ltd.

On the basis that a written commitment is obtained from the following that they are prepared to fund the project then no provision would be required:

	$'m
HH Sh Zayed bin Sultan al Nahyan	31.2
The Abu Dhabi Ruling Family	52.3
International Health and Welfare Foundation	22.1
	105.6

26 February 1990
S Naqvi Esq
Page 2

The amount identified is necessary to eliminate the current loans to Prince ($60.0m) the syndicated loan to the IMC Group ($36.8m) and the Grand Cayman loan to IMC Holdings ($8.8m).

We would also require evidence of how International Health and Welfare could fund such an investment.

If such a commitment cannot be given we suggest that the interest subsidies from ICIC to Prince for its lending from CFC and to IMC for its lending from the BCC Group be reversed and interest which is not being serviced be suspended with effect from December 1987 when the first subsidies were provided. Provisions against principal are also required to reduce the current outstandings to the approximate underlying value of the project. The total charge would be as follows:

	Interest suspended	Provision	Total
Provision in BCC Group for lending to IMC	$13.1m	-	$13.1m
Provision in CFC for lending to Prince	$3.7m	$5.7m	$9.4m
Provision in ICIC for lending to Prince	-	$18.9m	$18.9m
	$16.8m	$24.6m	$41.4m

These charges are based on reducing the current outstandings to an amount lower than or equal to the underlying value of the project. The hospital is included at its depreciated replacement cost although the underlying value, including goodwill, may well be greater than this. To the extent that this can be demonstrated the provision requirement could be less. We have provisionally discussed the possibility of obtaining such a valuation with Mr Kazmi.

Naturally alternative (1) is the more preferable but may be difficult to achieve in the short term and I would be pleased to discuss this with you once you have had a chance to review the initial paper.

I am sending a copy of this letter to Mr Kazmi, also.

Kind regards.

Yours sincerely,

CI Cowan

CIC/JAG/MM

BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI)

INTERNATIONAL CREDIT AND INVESTMENT COMPANY (ICIC)

Lending to Prince International Holdings (PIH) and the International Medical Corporation group (IMC).

(1) At 31 December 1989 both BCCI and ICIC have significant exposures to PIH and IMC as follows:

Prince International Holdings	$'m
Loans from ICIC	46.3
Loans from CFC	13.7
	60.0

International Medical Corporation Group	
Syndicated loan from BCCI Group (including accrued interest)	36.8
Loans from Grand Cayman (BCCI)	8.8
Loan from UK Region (MedCorp)	29.9
Loan from UK Region (MSI)	16.4
	91.9

(2) The summarised balance sheet of PIH at 31 December 1989 estimated on basis of 30 June 1989 figures, is:

	$'m
Investment in IMC	8.6
Interest free loans to IMC	35.9
Other assets	0.1
	44.6
Loans from ICIC/CFC	60.0
Other liabilities	2.5
Share capital (including shareholders' loans)	
- Abu Dhabi Family	9.8
- International Health & Welfare Foundation	8.9
Reserves	<36.6>
	44.6

The balance sheet of IMC at 31 December 1989 may be summarised as:

	$'m
Property (including Cromwell Hospital)	48.1
Other Fixed Assets	13.4
Blocked Funds at BCCI	28.6
Other Assets	15.1
	105.2
Loans from BCCI	91.9
Loans from PIH	35.9
Loans from Sh Z	2.3
Share Capital	
- PIH	3.4
- Sh Z	2.3
Revaluation Reserve	18.9
Profit and Loss Deficit	<56.2>
Other Liabilities	6.7
	105.2

(4) At 31 December 1989 the non-BCCI funding of the IMC Group was out of line with the originally envisaged shareholdings.

	31 December 1989 $'m	%	Original Plan %
PIH	39.3	90	60
Sh Z	4.6	10	40
	43.9	100%	100%

(5) Our understanding is that Prince was established as part of a restructuring programme designed to reduce the debt burden of the IMC Group by the injection of additional equity capital. It was envisaged that the residual lending from BCCI could then be fully serviced and repaid over a reasonable time.

(6) At 31 December 1989 the funding of PIH was also out of line with the original plan:

	31 December 1989 $'m	%	Original Plan %
ICIC/CFC loans	60.0	76	-
International H&W	8.9	11	33
Abu Dhabi Family	9.8	13	67
	78.7	100%	100%

The original plan incorporated a ten year forecast that, if met, would enable IMC to reduce its debt burden. It was planned that IMC would service its lending from its own resources and not be subsidised by the shareholders. This has not happened, as interest on the syndicated loan has been paid by ICIC through Prince International Holdings:

IMC Group	1988 Projected Surplus/(Deficit) $'m	1988 Actual	1988 Adjusted for interest subsidies
Before funding Costs	8.6	7.8	7.8
After funding Costs	(0.3)	(1.4)	(7.2)

	1989 Projected Surplus/Deficit $'m	1989 Actual	1989 Adjusted for interest subsidies
Before funding Costs	9.1	11.1	11.1
After funding Costs	0.2	(1.6)	(5.8)

Interest is not being fully serviced by IMC - rather interest on the syndicated loans is being settled by Prince through additional drawdowns on its loans from ICIC, of $5.8 million in 1988 and $4.2 million in 1989 which have been taken up as income in IMC Group.

In addition interest of $0.7 million and $0.4 million has been unpaid in 1988 and 1989 respectively on lending from BCCI - Grand Cayman to IMC Holdings.

8 The problems faced are:

(1) The IMC Group can still not service its lending. It is being subsidised by PIH. It needs an injection of equity capital at the IMC Group level probably equivalent to the total of the syndicated loan and the loan from BCCI Grand Cayman of $45.6 million, on the basis that interest on this lending is not being serviced at present. A more precise estimate would require a detailed evaluation of IMC and the Hospitals current cash flow forecasts. We understand that the current performance of the Hospital has been depressed and is below budget.

(2) Prince, being entirely reliant on IMC, cannot service its lending from CFC and ICIC and a further capital injection is required to repay these facilities totalling $60m.

We have calculated that the originally planned ratios would be satisfied if the following capital injections were made to refinance the lending identified above:

	$ million
Sh Z	31.2
Abu Dhabi Ruling Family	52.3
International Health & Welfare	22.1
	105.6

If a commitment to such a capital injection could be given, the value of loans given by BCCI and ICIC would be supportable so long as the funding of IHW could be proven.

10 If the commitments cannot be given, then the problems faced are:

(1) Non-performing loan in BCCI Grand Cayman to IMC

(2) Syndicated loan to BCCI being serviced by ICIC

(3) CFC loan to Prince being serviced by ICIC

(4) ICIC loan to Prince not being serviced.

11 This situation would be untenable and the accounts need adjustment. Our suggested treatment of these loans would be:

(1) Reversal of $0.4 million interest on the BCCI Grand Cayman facility of IMC Holdings in 1989.

(2) Reversal of syndication and CFC subsidies by ICIC through Prince in 1988 and 1989 ($12.8 million) thus transferring $12.8 million out of Prince lending in ICIC and re establishing the interest payable in BCCI with an equivalent interest in suspense creditor. (See Appendix I).

The above would require the amounts paid from ICIC to BCCI of $12.8m to be reversed from lending to Prince at the expense of the BCCI group, who should additionally suspend interest of $4.0m accrued (see Appendix II) on the Prince/IMC Holdings lending at 31 December 1989.

(3) A total of $16.8 million would therefore be expensed in BCCI in 1989.

(4) After adjustment the remaining loan balances would be:

ICIC -	$46.3m	less $12.8m	$33.5m
BCCI -	$105.6m	plus $12.8m accrued interest	
		less $16.8m interest in suspense	$101.6m
	$151.9m		$135.1m

This total reduction is accounted for by the expensing in BCCI of $16.8 million.

.5) If necessary the remaining loans should be written down to the underlying value of the project.

On the basis of the last formal valuation of the Cromwell Hospital this implies a shortfall of $36.6 million, although the informal revaluation performed in July 1989 would reduce this to $24.6 million, as follows:

	Loans	IMC Group Net Assets	IMC Group Revalued Net Assets
	$'m	$'m	
ICIC	33.5		
BCCI	101.6		
	135.1	98.5	110.5

On this basis the additional provisions required are:

	$'m
ICIC	18.9
CFC	5.7
	24.6

12 If the $16.8 million adjustments and interest reversals referred to above were not made, the total shortfall on the loans outstanding of $151.9 million against the revalued net asset of $110.5 million would be $41.4 million. On this basis the provisions required are:

	$'m
ICIC	31.9
CFC	9.5
	41.4

13 The basis of the valuation used above (depreciated replacement cost) however essentially only values the "bricks and mortar" of the Hospital. In reality the total value of the project may be greater given the goodwill interest in the business and clearly the extent to which this can be demonstrated would mitigate the provision requirement referred to above.

We would be pleased to discuss this further.

APPENDIX I

Interest subsidies paid by ICIC

The following amounts have been remitted to CFC by ICIC:

1 On Syndicated lending:

February 1988	£2.454m		
August 1988	£1.1150m		
January 1989	£1.1183m		
July 1989	£1.4679m		
	£6.1552m	@ 1.6255 =	$10.005m

2 On CFC loan to Prince International:

December 1987	£0.442m		
July 1988	£0.468m		
November 1988	£0.317m		
May 1989	£0.466m	@ 1.6255 =	$2.752m
Grand Total US Dollars Equivalent			$12.757m

APPENDIX II

Prince/IMC Accrued Interest as at 31 December 1989

Interest accrued on Prince/IMC Holdings lending at 31 December 1989 is as follows:

	$'m
On syndicated lending (£1.628m @ 1.6255)	2.65
On IMC Holdings loan in Grand Cayman	0.40
On Prince Intl loan in CFC (£0.583m @ 1.6255)	0.95
	4.00

Senator KERRY. Document No. 5 was a letter which was given to the directors of the bank from Price Waterhouse summarizing the problems that had been found as a consequence of their supplementary audit, which I believe prompted you to decide that you were going to resign.

[The information referred to follows:]

30 April 1990

Dear Sirs,

TRANSACTIONS WITH SHAREHOLDERS

We have prepared an analysis of loans to shareholders of BCCI Holdings (Luxembourg) SA outstanding in BCCI Group companies or in ICIC (Overseas) Limited at 31 December 1989 - see Appendix 1. Appendix 2 provides a more detailed analysis of lending to the Abu Dhabi Group. The analyses are prepared on the basis of information available to us and may exclude certain small loans which have not been reported to us. We have also not yet been provided with a full listing of shareholders at 31 December 1989 and accordingly base the table on the percentages at 30 September 1989.

We have a number of concerns in relation to the shareholder lending:

(1) Abu Dhabi Group

Included within the Abu Dhabi Group are loans of $109.4 million to HE Sh Hamdan Bin Mohammed Al Nayhan. HE Sh Hamdan died on 12 October 1989. We have seen no evidence that these liabilities will be assumed by the estate of HE Sh Hamdan nor any other evidence as to how they might be repaid. At 31 December there were deposits of $38.6 million with ICIC (Overseas) Ltd in the name of HE Sh Hamdan and preference shares and placements with ICIC Holdings Ltd of $55.0 million. There is however, no lien or formal right of offset available for these balances. We require evidence from the estate of HE Sh Hamdan advising how these loans will be repaid and confirming what set off arrangements are applicable.

We have been unable to obtain satisfactory documentation relating to a US$150 million loan in the name of HH Sh Khalifa drawdown on 11 March 1988 and subsequently repaid in 1988 and 1989.

$10 million was withdrawn in cash in September and October 1989 and charged to an account in the name of HH Sh Zayed. We have seen no customer authority for this withdrawal, nor confirmation of the outstanding balance.

(2) Mahfouz Companies
Dubai Family

Our concerns regarding these loans have already been addressed in our briefing notes to the independent task force.

Once the outcome of the task force's work is complete and the situation concerning lending to Sh Mohammed bin Rashid Al Maktoum and Sh Khalid Bin Mahfouz is clarified we shall require independent confirmation of their loans outstanding at 31 December 1989 and of their shareholdings in BCCI Holdings (Luxembourg) SA both at 31 December 1989 and at the date of approval of the 1989 financial statements.

(3) Wabel Pharaon and Dr Ghaith Pharaon

We have a number of concerns in relation to these two borrowers concerning shareholdings:

(1) We have no evidence that Wabel Pharaon is the beneficial owner of 8,599,631 shares in BCCI Holdings (Luxembourg) SA.

(2) The only security for Wabel Pharaon's borrowings in ICIC are 2,500,000 of his shares in BCCI Holdings (Luxembourg) SA. We have no evidence to support his capacity to repay these loans without selling these shares.

(3) In December 1989 Wabel Pharaon acquired 105,321 BCCI shares from Mohamed Taufiq Jiddau according to the Luxembourg share register. We are unclear as to how this acquisition was financed and why Wabel Pharaon should want to purchase further shares in BCCI when he is trying to reduce his loan exposures in ICIC.

(4) On 19 December 1989, $5.4 million was debited to the overdraft account of Dr Ghaith Pharaon in Grand Cayman, representing the purchase consideration for 111,709 shares sold by Suhail Faris Al Mazrui. There are no instructions from Dr Pharaon supporting this drawdown, nor any correspondence from the vendor of the shares. The sale of Mazrui's shares in December 1989 has not been recorded in the shareholders' register at 31 December 1989, or in January or February 1990

3 April 1990

Page 3

We require independent confirmation by Wabel Pharaon and Dr Ghaith Pharaon at 31 December 1989 of their shareholdings, the shares pledged as security and of their outstanding liabilities at that date.

(4)

MM Hammoud

MM Hammoud is a significant shareholder in BCCI Holdings with 2,646,184 shares and is also a shareholder in CCAH. (12,200)

His ICIC facilities are secured on 622,000 shares in BCCI Holdings (Luxembourg) SA. The balance is clean.

Management at ICIC have been pursuing the borrower for additional security and a repayment schedule. These have not been forthcoming. There is no evidence available to indicate how the loans at ICIC are likely to be reduced without the sale of MM Hammoud's BCCI shares.

We again require independent evidence supporting these exposures and evidence that MM Hammoud is the beneficial owner of 2,646,184 shares in BCCI.

(5)

1. Sh Kamal Adham
2. Faisal Al Fulaij
3. Mr Sayed Jawhary
4. Mr AR Khalil
5. HE Ali M Shorafa

Lending to these individuals is principally secured on shares in CCAH and is discussed separately in our briefing notes to the independent task force. Given the problems we have identified concerning the loans outstanding from AR Khalil, which are detailed in our briefing notes to the independent task force, we would also like to seek independent confirmation from him of his shareholdings at 31 December 1989.

(6)

1. HRH Prince Turki
2. Shaf Corporation
3. Abdullah Saeed Badar al Rawas
4. Sh Ali Abdullah Bugshan
5. HE Mohammed Habroush Al Sowaidi
6. Mohamed Al Qasmi
7. Sh Salem Ahmed Bugshan
8. Mr Nasser Mohamed al Nowais

Whilst these exposures are smaller than most of those noted above, the loans are often non performing and we are concerned about the willingness of the shareholders to repay these loans.

We believe that these loans should all be independently confirmed at 31 December 1989. We also suggest that an independent assessment is made of the ability of these shareholders to repay their loans and of their performance to date. Where necessary the loans should be restructured and provisions should be established.

(7)

Independent Shareholders Circularisation

As we have already referred to, there are a number of instances where we believe it would be appropriate to independently confirm shares held by individuals or companies. This is a consequence of:

(1) our necessary reliance on management representations in the past as to shareholders and the number of shares held.

(2) the instances noted (and referred to in our report to the independent task force) when shares subscribed to under the 1989 rights issue have not been acknowledged by the customer and where there are no acceptance letters or other documentation from the shareholder.

(3) the time delay that is encountered in the shareholder register being updated.

Given the significance of shareholder support at this time we believe that it is essential that all shareholder details should be independently confirmed by Price Waterhouse with the shareholders concerned. This conformation exercise should include

(1) Confirmation by the shareholder of the shares held in BCCI Holdings (Luxembourg) SA at 31 December 1989 and at the date of circularisation.

(2) Confirmation by the shareholder that they are the beneficial owners of these shares.

(3) Confirmation of loans outstanding and contingent facilities at 31 December 1989 with BCCI Group companies and ICIC (Overseas) Ltd including any restructuring terms that may now have been agreed.

(4) Details of any BCCI shares pledged as security for this lending.

(5) Details of deposits placed with BCCI Group companies or ICIC Group Companies at 31 December 1989 and whether under lien or free of lien.

(6) Details of any other significant transactions with BCCI or ICIC.

In order that the confirmation exercise is truly independent, it should be fully controlled by Price Waterhouse. We would naturally conduct this exercise in a discreet manner and treat all information extremely confidentially.

We look forward to discussing these issues with you further.

Yours faithfully,

APPENDIX 1

Loans to shareholders

		BCCI		ICIC	
	% (at 30.9.89)	Balance at 31 December 1989 $ million	Shares Pledged	Balance at 31 December 1989 $ million	Shares Pledged
Shareholder					
Abu Dhabi Group	35.61	371.8	-	17.5	-
Mahfouz Companies	20.00	152.5	-	-	-
Mr Wabel Pharaon	11.41	-		75.4	2,500,000
ICIC Foundation	8.40	-	-	37.9	6,252,811
Mr MM Hammoud	3.55	24.9	-	60.9	622,000
Dubai Family Stock/Crescent	3.27	124.6	-	0.1	-
Mr AR Khalil	3.08	150.3	-	-	-
ICIC Staff Benefit Fund	2.94	-	-	49.1	2,187,039
Sh Kamal Adham	2.94	313.5	-	10.1	-
Faisal al Fulaij	1.53	113.0	-	35.1	380,819
HRH Prince Turki	0.97	9.6	-	12.9	325,671
Mr Sayed Jawhary	0.75	19.7	-	-	-
Shaf Corporation	0.70	20.7	-	-	-
Abdullah Saeed Badar al Rawas	0.55	17.7	-	-	-
HE Ali M Shorafa	0.55	123.3	-	5.4	-
Ali Mohamed Bin Aqeel Baomar	0.54	0.1	-	-	-
Sh Ali Abdullah Bughsan	0.41	3.9	-	-	-
Mohamed al Qasmi	0.15	-	-	0.6	-
Sh Salem Ahmed Bughsan	0.13	9.5	-	-	-
HE Mohammed Habroush al Sowaidi	0.11	7.5	-	2.6	25,000
Mr Nasser Mohammed al Nowais) and Mr Yousef) M Al Nowais)	0.08	7.3	58,878	0.7	-
Mr Abdullah Nasser Hawaileel	0.08	1.4	-	-	-
Juan Salim	0.06	5.3	-	0.5	-
Others	2.19	0.2	-	-	-
	100	1,476.8	58,878	308.8	12,293,340

APPENDIX 2

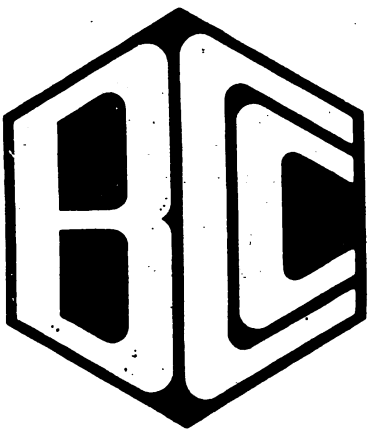
Loans to shareholders - continued

The Abu Dhabi Group lending may be analysed as follows:

	Balance at 31 December 1989			Comments
	%	BCCI $ million	ICIC	
HH Sh Zayed Bin Sultan Al Nahyan	3.88	127.1		Personal overdraft facility.
		12.8		Other personal overdrafts.
		2.0		
		10.0		Personal loan facility.
		151.9	-	
HE Sh Hamdan Bin Mohamed Al Nahyan	0.71	74.5		Grand Cayman loan for investment purposes.
		11.1		Grand Cayman overdraft
		16.2		City Centre Hotel
			7.6	CIC facility
		101.8	7.6	
HE Sh Mubarak Bin Mohammed Al Nahyan	0.54	6.9		Personal loan facility
		16.7		Personal overdraft facility
		23.6	-	
HH Sh Khalifa Bin Zayed Al Nahyan	19.65	31.9	-	Personal overdrafts
HE Sh Tahnoon Bin Mohammed Al Nahyan	0.20	0.2	-	
HE Sh Nayhan Bin Mubarak Al Nahyan	0.10	7.4	6.3	
George Town Funding Company Limited	0.11	-	-	
Abu Dhabi Investment Authority	10.42	55.0	-	330 Madison Avenue Company owned 75% by ADIA
Sh Mohammed Bin Zayed Al Nayhan	-	-	3.6	ICIC facility
	35.61	371.8	17.5	

Senator KERRY. And document No. 6 is your task force report, the summary that you yourself put together with your investigative task force, in which you summarized the $850 million which was at risk on the Credit Commerce American holdings; First American, the $800 million on the shareholder loans, which was all BCC; the $700 million on the Gokal shipping problems; the $100 million on the Grand Cayman miscellaneous; and subsequently, the $500 million on the ICIC books, which was a separate entity that you are going to describe today.

[The information referred to follows:]



REPORT OF THE TASK FORCE
(SET UP BY C.E.O. OF BCCI HOLDINGS (LUXEMBOURG) SA)
TO REVIEW AND REPORT ON SELECTED INTERNATIONAL LOANS AND TRANSACTIONS

PREPARED BY

M Rahman
S Jamil
A Chaudhry
R Velmi

April 1990

CONTENTS

Serial No.	Subject	Page Ref.
1.	PREAMBLE	1
2.	WORK OF TASK FORCE	3 - 12
	DETAILED FINDINGS Re: PW 1st Report	
3.	C.C.A.H.	13 - 20
4.	Sh. Kamal Adham	21 - 23
5.	A.R. Khalil	24
6.	Gulf Group	25 - 27
7.	Off Shore Companies/Loans	28 - 31
8.	Mahfouz Family	32
9.	Sh. Mohd. Bin Shahid Al Matktoum	33
10.	Grand Cayman - Slow Moving Advances	34 - 35
	DETAILED FINDINGS Re: PW - 2nd Report	
11.	K.I.F.C.O.	36 - 37
12.	B.C.P.	38
13.	S.D.C.C.	39 - 41
14.	Hammoud	42 - 45
15.	Saigols	46 - 47
16.	Grand Cayman - Numbered A/C 11011103	48
17.	G. Pharaon/W. Pharaon	49 - 51
18.	Grand Cayman - Other A/Cs (12)	52
19.	Sh. Ibrahim	53
20.	Prince/IMC	54
21.	Haji Sultan Fadel	55 - 57
22.	Faisal Al Fulaij	58

REPORT OF THE TASK FORCE
ON SELECTED INTERNATIONAL LOANS AND TRANSACTIONS

1.00 **PREAMBLE :**

1.01 This report by the special Task Force, addressed to the Chief Executive Officer, is in response to the specific requirements of the external auditors of the BCC Group - Messrs. Price Waterhouse (PW).

It incorporates the findings of the Task Force concerning a number of international loans and transactions related thereto - primarily emanating from Grand Cayman branch of Bank of Credit and Commerce International (Overseas) Limited. The external auditors had identified these loans and transactions during the course of their audit for the year 1989 and had expressed severe reservations thereon - necessitating further independent review and disclosures as to the nature of these accounts and transactions and their effects on the financial results of the Group and provisions for the year.

1.02 The report has been prepared after days of continuous work since receiving the PW report on 14th March 1990 and involved extensive and intensive interviews of concerned "Accounts Officers" and review of a number of files and documents connected with these accounts and transactions, as were available or made available in London. PW presented the Task Force with a supplementary report on the 6th ~~March~~ April 1990 containing 12 problem loans/related issues. The Task Force notwithstanding the time constraint has made all efforts to review each of these accounts and present their findings in this report.

1.03 While the Task Force has not conducted a detailed audit as done by PW it has nevertheless reviewed all accounts listed in PW report and additionally accounts in those locations not covered by PW audit like Kuwait and Uruguay which have a similar nature or purpose or relationship.

1.04 The report besides recording the findings of the Committee also makes specific evaluation of the effects of these findings on the financial results of the BCC Group for the year 1989, as well as their monetary implications for 1990 and beyond.

1.05 The report also makes very specific recommendations on :-

(a) the additional provision necessary in the bank's accounts of 1989 to cover against the resultant drop in the quality of certain specific portfolio of advances in the books of the bank, primarily in Grand Cayman branch.

(b) actions necessary by management to prevent the recurrence of such irregular accounts and activity in the bank any time in the future.

(c) proposed restructuring in Grand Cayman branch and at the C.S.O. to avoid similar events in the future.

Regarding any other actions which may be considered necessary against the concerned officials of the bank, is left to the CEO and senior management of BCC. However the Task Force has already withdrawn authority of three of the key concerned personnel from their existing customer related activities leaving them to do any transactions only if they are vital to the bank, in which case at least 2 members of the Task Force will countersign such authorization.

WORK OF THE TASK FORCE

2.00 **BACKGROUND WORK :**

In order to perform their role more effectively the Task Force obtained the following information from the Group's central Finance Division :

A - The Global Audit Process
B - The 1989 Audit Details
C - The Grand Cayman Branch Audit Process

2.01 **THE GLOBAL AUDIT PROCESS :**

The BCC Group consisting of 32 banking units in 73 countries has been audited annually from its inception at group level by Messrs. Ernst & Whinney and at BCCI (Overseas) Grand Cayman level by Messrs. Price Waterhouse. In 1987 as a means of consolidating the global audit process under one firm the entire audit work was transferred to Messrs. Price Waterhouse.

- The annual audit is conducted by Price Waterhouse (and previously by Messrs. Ernst & Whinney) in two parts :

- an extensive interim audit covering the financial results of the Group for the 9 months up to September 30th of each year which is carried out at all major locations as selected by the auditors during the months of November and December each year and

- a final audit conducted globally for the entire year which is carried out from around the first week of January and up to late February (in normal years). Often this exercise extends into March also.

- As a part of the audit routine a very comprehensive 'Audit Instruction Manual' and 'Questionnaire' is sent by PW in September of each year to the auditors in all BCC locations.

- Copy of the Audit Instruction/Questionnaire is given at Annexure A.

- The global list of auditors is given at Annexure B .

- Notwithstanding that the majority of the BCC locations are audited by PW's own local offices, several senior partners of PW from London and other locations travel to various BCC locations to directly review the local operation of BCC and to discuss outstanding audit issues with the local management and the local offices of PW or other audit firm(s). This has given PW an extensive understanding of the operations of BCC globally over the past several years. A list of the locations visited in 1989 and the names of the partners concerned is given at Annexure C.

- Task Force were informed that it has always been management's policy to give full and complete access to PW to all records and documents of the bank in all BCC locations and to allow free and intensive direct discussions between the external auditors and each and every concerned officer or official of the bank to clarify all transactions and other audit queries.

- PW informed us that they have not had full access to BCP and KIFCO. Management, in response, told the Task Force that this is due to certain local regulatory restrictions, as BCC are minority shareholders in these companies and local auditors have been appointed by the Company's Board, who oversee its day to day management.

- To smoothen the annual audit process the central Finance Division of the Group based in the Central Support Office in London (CSO) coordinates the audit process globally. Counterpart officers are nominated in each location - normally the location's finance officer, with whom ongoing contact is maintained throughout the audit period to monitor the progress and clear any outstanding audit queries on an ongoing basis.

2.02 **THE 1989 AUDIT DETAILS :**

The 1989 audit has been conducted on the same lines as in 2.01 above.

The Task Force's review of the audit work conducted for all locations of BCC in 1989 indicates that not only has it been extensively and intensively carried out by PW, but it has also been relatively smooth globally with only a small number of enquiries, which have been duly answered by the local

management or local auditors to the satisfaction of the group auditors in London. This is with the exception of Grand Cayman branch.

The audit of Grand Cayman branch, which has always been a difficult audit for PW, has been even more so during 1989. As a result besides the work carried out by the local office of PW in Grand Cayman a special PW audit team from London has had to travel to Grand Cayman on two separate occasions during the period November 1989 to February 1990 to clear many outstanding issues.

2.03 SPECIAL DIFFICULTIES RE. GRAND CAYMAN AUDIT :

The Task Force made specific efforts to understand the cause(s) for the complex nature of operation in Grand Cayman branch and reasons for difficulties faced by PW in their audit process. They concluded that these were primarily due to the following reasons :-

(a) Grand Cayman branch does not have any 'local' clients. Their portfolio of assets and liabilities are all offshore. This causes inadequate documentation and written communication, particularly in active accounts.

(b) A significant amount of loans have been given to shareholders of CCAH against the security of CCAH shares. These have very special need in their handling and special documentation requirements. Since the parties are very high net worth (or even Royal family members) required documentation has not been easy to obtain.

(c) The branch has several direct loans to the Royal family members in UAE where documentation is difficult to obtain.

(d) For historical reasons a substantial number of slow moving or weak advances have been transferred to Grand Cayman from other BCC locations for business consideration. These are currently being managed from Grand Cayman (and partly London) under separate 'Accounts Officers' who are individually perusing these clients, including restructuring several of these accounts wherever feasible. Communication with some clients is sporadic.

(e) There are three or four very large business accounts, with large income to the Group, which have been booked in Grand Cayman for tax consideration. This creates undue concentration of risk in one location.

(f) Over the last several years a large number of new 'offshore' loans have been initiated from Grand Cayman said to be for parties from the subcontinent doing shipping and trading business. These loans have been 'parked' in several BCC locations and back up documentation is extremely weak.

3.00 PRICE WATERHOUSE FINDINGS IN 1989 AUDIT :

During the course of the audit of Grand Cayman branch the PW audit team questioned the activities in relation to a series of international loan accounts which had been opened during the last several years in Grand Cayman branch and some which had been opened in 1989, the transactions of which did not appear to reflect the correct nature of the business it was supposed to be involved in. PW was also not able to obtain satisfactory evidence of the real beneficiaries of these accounts.

Further the PW team detected a few 'problems' accounts / transactions in Bahrain and National Bank of Oman about which they had similar doubts.

Transactions were also found which related to the shareholders of the BCC Group and the shareholders of CCAH which were either not properly authenticated by the client or did not have sufficient and/or complete explanations as to their underlying nature. Certain year-end balance confirmations were also missing or even rejected (2 cases).

4.00 PRICE WATERHOUSE REQUIREMENT :

Since the PW team were unable to progress and conclude with the concerned 'accounts officers' to their satisfaction, they raised the matter at the highest level of management of BCC and with some of the Board members stating that the progress of the audit for 1989 would be significantly delayed unless management set up a TASK FORCE to review these accounts and some of the transactions and clarify their true nature and inter-relationship (if any) and report their findings to the Chief Executive Office and to PW.

5.00 THE TASK FORCE :

A Task Force was accordingly set up by the Chief Executive Officer on 13th March 1990 consisting of the following members :-

(i)	Mr. Masihur Rahman	: Executive-in-Charge Central Finance Division.
(ii)	Mr. Shahid Jamil	: Executive-in-Charge Central Treasury.
(iii)	Mr. Azizullah Chaudhry	: Joint Executive-in-Charge Central Credit Division (recently assigned to this function)
(iv)	Mr. Rashid Velmi	: (Until recently) Head of Operations and Credit Committee in U.K. Region

6.00 TERMS OF REFERENCE :

At a joint meeting of the Task Force and PW on 13th March, 1990 a detailed 'TERMS OF REFERENCE' was drawn up and agreed (Annexure D).

7.00 PW - BRIEFING NOTE TO TASK FORCE :

On 14th March 1990 PW submitted a confidential report which was in the nature of a briefing note for the independent Task Force giving a summation of each of the problem International Loans and related transactions on which PW required a full review by the Task Force. These covered the following cases :-

(1) CCAH
(2) Sh Kamal Adham
(3) AR Khalil
(4) Gulf Group
(5) Offshore companies
(6) Mahfouz Family
(7) Sh Mohammed Bin Rashid Al Maktoum

8.00 **WORK PHYSICALLY CARRIED OUT BY THE TASK FORCE :**

8.01 The Task Force at their first formal meeting on 14th March 1990 decided to take two days to independently absorb the contents of the PW Report since the information contained therein was all new data and material for the Task Force and some very serious issues had been raised in the report which appeared to cover several years activity.

8.02 Thereafter the Task Force were more or less in constant session jointly interviewing the concerned Accounts Officers and taking their detailed statements and explanations. They also reviewed a number of customer related files and a number of documents relating to the above accounts.

8.03 Wherever required further material was collected from PW and advice sought from them as to the best course of action to be followed next.

8.04 In the course of their interviews and review of the papers and documents it became clear to the Committee that the cases referred to by PW fell into four broad categories :-

CATEGORY A : BCC Shareholders related accounts and/or transactions which would include :

(a) Mahfouz Family
(b) Sh Mohammed Bin Rashid Al Maktoum
(c) Sh Kamal Adham
(d) AR Khalil

CATEGORY B : Accounts/Transactions relating to shareholders of CCAH.

CATEGORY C : Business and commercial accounts which would include:

(a) Gulf Group
(b) Offshore Companies
(c) Sh Kamal Adham (SKA)
(d) A.R. Khalil (ARK)

CATEGORY D : Other related accounts which could have linkage to the above series of accounts. This would incorporate transactions recorded and noted by PW in Bahrain and National Bank of Oman.

8.05 During the course of review the Task Force decided to extend their work so that they can determine whether any such transactions or accounts has also been recorded in any other unit of the BCC Group where PW are not directly auditing the locations such as Kuwait etc.

8.06 The Task Force specifically determined who were the officers dealing directly or indirectly with the above mentioned accounts.

9.00 APPROACH TAKEN BY TASK FORCE :

In the course of their review of many of the related files and documents and their extensive interviews of the concerned 'Accounts Officers' it became obvious to the Task Force that almost all these transactions related to the customers and activities of Grand Cayman branch. Even when 'counterpart' transactions or loans were found in other locations and units of BCC, there was documentary proof and/or verbal confirmation from the 'Accounts Officers' that they were initiated from Grand Cayman (and partly from London). The Task Force therefore concentrated more and more on the operations of Grand Cayman branch including a review of activities on other slow moving accounts in Grand Cayman branch referred to in para 2.03 above.

The Task Force thereafter determined that to progress the work speedily the team should break into three 'units'.

A. Mr. Azizullah Chaudry and Mr. Rashid Velmi would concentrate on all the commercial loans which would include :

- Gulf Group
- all Offshore accounts
- Commercial/business loans to SKA and ARK

B. Mr. Shahid Jamil would concentrate on CCAH and BCC shareholders' and share related loans which would cover the following :

- CCAH shareholders
- Sh Kamal Adham
- AR Khalil
- Mahfouz Family
- Sh Mohammed Bin Rashid Al Maktoum

C. Mr. Masihur Rahman while assisting both these units would concentrate on once again re-reviewing other 'slow moving' accounts in Grand Cayman and to reassess any additional provision requirements thereto notwithstanding that these provisions had already been agreed.

Regarding A - The Task Force also concluded that in relation to shareholder loans and CCAH loans, (being dealt with by Mr. Shahid Jamil) much of the outstanding issues and queries would automatically be answered if the current exercise of restructuring of shareholders in Abu Dhabi were to be successfully concluded. On this basis Mr. Shahid Jamil was requested to focus more on particular transactions, relating to shareholders, which PW had listed, and on the valuation of CCAH shares, and assess any provision required for any of these outstanding loans based on the various security values. Thereafter he should concentrate on reviewing SKA's and ARKs accounts for which assistance will be required from other Task Force members.

Regarding B - Mr. Azizullah Chaudhry and Mr. Rahid Velmi were required to review the offshore loans based in Grand Cayman, Panama, Liberia, Bahrain, NBO, listed by PW and those subsequently disclosed by accounts managers as being located in Kuwait and Uruguay, in the light of concern shown in the PW report and to determine provision requirements thereagainst.

They were also requested to fully go into the operation of the Gulf Group accounts and ascertain the banks exposure to this Group based on all data and documents available to them and thereafter to ascertain what provision, if any, was required against the various exposures to this Group. They should also recommend what steps should be taken by management to bring this very major account of BCC into a more organised and controlled supervision.

Senator KERRY. Document No. 6B, again, is the task force follow-up report which set out how you were going to ferret out the problems and correct these things for the bank and try to do some kind of work that would keep the bank whole prior to the Bank of England's takeover.

[The information referred to follows:]

Further they should make efforts to meet the client and discuss ways and means to restructure this account into more viable segments which can subsequently be dealt with on 'bankable' terms.

Regarding C - Mr. Masihur Rahman was required to assess each of the slow moving accounts in Grand Cayman, the bulk of which were 'acquired' over the years from other locations, and fully review these accounts with the concerned Accounts Officers jointly with PW to determine that given the new facts coming out of this report what would be the revised provision requirements against these accounts which had earlier been agreed by PW at around US$20 million.Thereafter he should directly assist Mr. Shahid Jamil in reviewing the accounts of SKA and ARK.

10.00 PW SUPPLEMENTARY REPORT

As mentioned in the preamble PW presented the Task Force with a Supplementary Report covering 12 problem loans and related issues. The Task Force noted that several of these cases had already been covered or referred to in their earlier report, which had already been studied by the Task Force in the course of their review of the first report. The other cases primarily related to advances to shareholders which were both for shares of CCAH or for commercial activities. Loans from ICIC were also included for the first time. The cases referred to were as under:-

1. KIFCO
2. BCP
3. SDCC
4. M.M. HAMMOUD
5. SAIGOLS
6. NUMBERED ACCOUNTS
7. G. PHARAON
8. GRAND CAYMAN
9. SH. ABDUL AZIM AL IBRAHIM
10. FAISAL AL FULAIJ
11. IMC/PRINCE
12. AL HAJI SULTAN FADEL

The Task Force once again allocated the above cases to the individual members of the team for determining the facts of the cases and their findings thereon and where necessary any provision requirements.

For the cases relating to the shareholders these remained with Mr. Shahid Jamil and the approach to arrive at the findings was similar to that mentioned in paragraph 9.00. For other commercial loans the Task Force members decided to evaluate the underlying business, the exposure of the bank and the need for provision, if any in BCC.

TASK FORCE REPORT ON
LENDING SECURED ON SHARES IN CCAH

The Task Force reviewed the files and papers held by the Accounts Executive, Mr Imran Imam, and ascertained the following facts from the records and from the detailed interviews.

1.00 **BACKGROUND :**

In 1982, when CCAH acquired First American Bank shares via two intermediate bank holding companies set up for this purpose (CCAI and FAC), the acquisition was wholly funded by the shareholders of CCAH from their own resources plus a US$50 million syndicated bank term loan which was obtained by (FAC) First American Corporation.

Subsequently some of the shareholders obtained various loans from BCCI against their investment in CCAH including for business and personal reasons. They also raised loans from BCCI for subscribing for rights issues of CCAH in December 1983. The effective lending by BCCI Group started in 1984.

2.00 **SECURITY :**

2.01 As stated above, BCCI Group has provided loan facilities to some shareholders of CCAH secured on their shares since 1984. By the end of 1989, BCCI had provided total loan facilities of $850.2m to 10 borrowers against 119,325 shares which make up 41.28% of the shares of CCAH.

The net asset value of CCAH shares at 31st December, 1989 was US$2,963.50 per share based on the Balance Sheet of CCAH audited by Arthur Anderson & Co. as at that date. It was Management's view that since the shares of CCAH will be acquired at a multiple of its book value, this multiple should be at 2.75 times book value, discounted by 10%, for the purpose of evaluating its value as security. On this basis each CCAH share was deemed to have a security value of US$7,333.00 and the 119,325 CCAH shares deposited with BCCI as security gave a total value of US$875.1 million.

2.02 A review of the records showed that the number of shares pledged by some borrowers have changed from year to year due to the various rights issues which has increased the number of CCAH shares deposited with the bank as security (without increasing the percentage of CCAH shares so pledged).

2.03 The Account Executive responsible for the CCAH loans secured by CCAH shares has confirmed in writing that all the shares of CCAH are not held by BCCI nor was this the case in the past. This appeared to contradict the comment made by PW which states:-

> "In the past bank officials have responded that they hold all the CCAH shares and not simply those pledged, although this year this has been denied".

The Task Force feel that his providing the auditors with a complete list of CCAH shareholders in the past may have contributed to this misunderstanding. Many shareholders of CCAH, like ADIA, who have not borrowed from BCCI against their CCAH shares, have their own share custody arrangements.

3.00 **PW CONCERNS :**

3.01 **Loans Documentation/Loan Files**

PW have expressed severe reservations in relation to the quality of loan files and loan documentation. The Task Force in reviewing these files are in agreement with PW that these are exceptionally weak given the size of the individual loans.

The Account Executive has confirmed that promissory notes were obtained from borrowers in 1985 at which time they covered virtually all the borrowings. However, no separate loan agreements were executed for loans advanced since 1986. The loan files reviewed by the Task Force are sparse as the number of lending and repayment transactions appears to be very small although the amounts are large.

3.02 **Drawdown During 1989**

Drawdowns in 1989 totalling US$42 million did not have sufficient back-up information.

The Task Force reviewed the situation and determined as follows:

Borrower	Date	Amount of Drawdown	Date	Amount of Repayment	Additional Information Obtained by Task Force
		$m		$m	
1. Sh Sharqui	20.9.89	11.00	-	-	Letter dated 2/4/90 directly from Saudi National Commercial Bank confirming utilisation of funds by respective borrower (copy enclosed at Annexure E).
2. Faisal Fulaij	20.9.89	10.00	-	-	
3. A. Sharafa	18.9.89	14.00	-	-	
		35.00			
4. K. Adham	13.6.89	7.00	3.10.89	7.20	
Total Drawdowns		42.00			

The Task Force found that the above drawdowns of $35.0 million were allowed in September 1989 and the funds were disbursed without the prior approval of the Board of Directors. The same appears to be the case for the drawing of US$7m in June 1989. However, The Board of Directors approval for these loans as part of the borrowers' global facility was subsequently sought and obtained. The explanation of the Accounts Officer for the delayed Board approval was that due to the importance of the clients and the urgency of his needs this was done. The Task Force felt that a process should be urgently developed to avoid such defaults.

PW's concern re. absence of written request was fully appreciated by the Task Force. The Accounts Executive continued to stand by his original statement that specific verbal instructions were received from the borrowers for the above drawdowns which appeared to be the 'operating method' in earlier years also.

The Task Force determined that the funds were remitted to Saudi National Commercial Bank (Bahrain) for credit to the borrowers accounts with them in the case of the first three drawdowns listed above. In the case of the fourth drawdown of Sh Kamal Adham, this appeared to be a short term loan taken by him of $7 million which was repaid by him on 3.10.1989. The first three transactions have since been confirmed directly by Saudi National Commercial Bank. (Annexure E).

The Accounts Executive further insisted that in no case has he ever received or accepted instructions for withdrawals from a loan account of one borrower, from another borrower.

- It originally appeared to the Task Force that there was no real control over drawdown and more particularly granting of interim facilities outside of sanctioned limits. While the quality of control and documentation is definitely weak, and the Task Force noted this, however, further review indicated that the limits for these loans were deliberately set by the Board at a low level in order to maintain control over these types of lending. The requirement being to report excesses to the Board on an immediate and ongoing basis. In fact this has often been delayed and short term 'excess over limits' were nevertheless being allowed. In the absence of repayments, the short term loans have consequently become 'core' loans.

- CCAH Debentures

  CFC purchased CCAH debentures of US$20 million which were redeemed on 10.1.90. CFC Board approval for this investment was seen. A copy is attached at Annexure F. However, the Task Force determined that new debentures of US$18 million were issued by CCAH in January 1990 which were also purchased by CFC.

- Rights Issue:

  The records indicated that a total sum of US$50 million was paid from the CCAH Share Subscription Account in response to a Rights Issue call by CCAH. The balance in this account as at 31.12.1989 was US$39 million. The Task Force was informed that this will be apportioned between the shareholders on receipt of their Letters of Acceptances/ Waivers. Thereafter specific limit enhancement proposals, where necessary, will be submitted to the Board for approval in the case of concerned borrowers. The Task Force felt that such funding should have been prearranged; alternatively new shareholders could have been attracted as the underlying investment is attractive.

3.03 **Growing Size/Poor Performance of CCAH Related Loans**

PW felt that the growing size and poor repayment performance of loans allowed to borrowers against some of the shares of CCAH have resulted in these loans becoming 'core' loans. These loan balances have also continued to increase owing to the application of interest, bank charges and drawdowns for rights shares subscriptions and some withdrawals by the borrowers. The Task Force accepted the concern of PW on this subject.

- The Task Force was however informed that since 1989 the bank has advised the major borrowers to dispose of their shares in CCAH to repay their loans to BCCI. While no specific letters were seen to this effect, the Task Force was able to ascertain directly that the legal representatives of the shareholders of CCAH have retained the services of a major U.S. investment bank to advise, evaluate and assist either in the outright sale or in the merger of the CCAH group of First American Banks with a larger banking entity. If either of these transactions is effected the loans secured by CCAH shares will be repaid from the of sale of CCAH proceeds or the shares replaced of the acquiring bank would be sold to adjust the loans secured against the CCAH shares. In the above situation there would also be no further need for new capital calls on CCAH shareholders which are made through rights issues.

4.00 **Balance Confirmation**

4.01 The balance confirmation letters sent in 1989 by PW to the borrowers whose loans are secured against CCAH shares, is this year for the first time supported by a very detailed schedule which gives the borrowers loan account number, account location, balance as at 30th September, 1989, interest rate, management fees and other charges and details of collateral. This schedule also clearly states the security, cross pledges (where applicable) and confirmation of instructing the management of First American Bank Inc. to examine the possibility of the sale of CCAH shares and most importantly it additionally states that any shortfall in the repayment of the loan on the disposal of CCAH shares will be met by the borrower out of his own resources. A copy of this confirmation letter and supporting schedule is attached at Annexure G.

The Task Force determined that up to 1988 year end balance confirmations appear to be up to date with PW with the exception of AR Khalil and the Ruler of Ajman who confirmed balances up to 1985 in 1986.

4.02 For 1989 five borrowers have sent their confirmations to PW but two borrowers have rejected their loan balance confirmations this year even though we are informed they had confirmed their loan balances in some earlier years. The two borrowers who have not confirmed their loan balances this year are the Ruler of Fujairah and Ruler of Ajman. The Task Force was informed that this is the first year in which the BCC Letters for confirmations of loan balances were specifically designed by PW and also mailed by PW directly to the borrower. On specific enquiry as to the cause for the rejections the Task Force were informed that some of the Rulers in UAE do not understand the reason for the departure from previous protocol (previously a senior executive of BCC in the field had to personally call on the concerned Royal family for their confirmation). We intend to obtain from PW a copy of the two confirmation letters (and supporting schedules) which have been rejected by the two Rulers. The Task Force feels that the reasons for their inability to confirm must be ascertained and appropriately addressed to the satisfaction of PW.

5.00 Ownership Issue

5.01 The Task Force determined, through their review, that in the case of Midgulf and Rubstone, where loans are secured by shares beneficially owned by Mr M M Hammoud, the companies are beneficially owned by Mr Kamel Rahhal and Mr Youssef Chehadah who are business associates of Mr M M Hammoud. A photocopy of the supporting documentation is attached at Annexure H.

5.02 A statement showing that some CCAH shareholders have agreed to take up their allocations under July 1989 Rights Issue is enclosed at Annexure I.

(An annual return of CCAH shareholders is filed by CCAH but their filing is not the responsibility of BCCI.)

6.00 GENERAL FINDINGS OF TASK FORCE ON OWNERSHIP AND FUND MOVEMENTS ON SHAREHOLDERS ACCOUNTS AND RECOMMENDATIONS THEREON.

6.01 The Task Force noted from the two reports submitted to them by Price Waterhouse, on March 14th and April 6th, 1990 that several transactions and fund movements had been identified by Price Waterhouse which were shareholder related and not appropriately covered by adequate documentation indicating its exact nature and purpose.

6.02 These transactions are fully listed in Annexure J and are extracts from the two reports.

6.03 The Task Force reviewed each of these transactions and fund movements, had detailed discussion with the concerned Accounts Executive and saw whatever connected files and documents the Accounts Executives were able to produce which were not satisfactory.

6.04 The Task Force therefore concluded that short of meeting the concerned shareholders directly or obtaining direct confirmation from such shareholders, which would be difficult as the Task Force has no ready access to such shareholders, it would not be possible to conclude whether or not the transactions duly and fully reflected the purpose indicated by the Accounts Executive.

6.05 The Task Force further concluded that pending the independent confirmation referred to above it could be deemed that there are some "interlocking" arrangements as to ownership and funding of shares of CCAH, and in a few cases shares of BCCI (Holdings).

6.06 The Task Force is however aware that Management is currently involved in negotiations with certain high net-worth individuals and Investment Institution of Abu Dhabi, who already hold substantial shares of BCCI Holdings and CCAH, to acquire additional quantity of these shares which would make them major shareholders of the BCC Group and CCAH Group. This in itself would 'unwind' more or less all of these possible interlocking arrangements.

6.07 The Task Force therefore recommended that this route should be used to solve and clear the concern of Price Waterhouse in relation to the identified transactions/fund movements.

6.08 Efforts should however continue to obtain year-end confirmation of balances from shareholders as done in earlier years to the satisfaction of Price Waterhouse.

7.0 OTHER RECOMMENDATIONS

7.01 The bank must follow up on the disposal of CCAH shares which the Task Force continues to believe are valuable security. The extensive lendings to the CCAH shareholders, both principal and interest, should be recovered or substantially reduced. While the anticipated disposal of shares is the best basis on which these loans can be repaid, the Task Force has been informed that other shareholders may be interested to buy out the share of those CCAH shareholders who have BCCI loans.

8.00 VALUATION OF CCAH SHARES

8.02 The Task Force believes that the valuation of CCAH shares should range between 2.5 times to 2.9 times book value as Regional Banks in South Eastern U.S.A. are in much better financial condition than banks in other regions such as the North East, Texas or the South West of USA. - Furthermore First American Bank shares is a unique multi-state bank holding company with an unmatched commercial banking franchise in Virginia, Washington D.C., Maryland, Georgia, Tennessee, Florida and New York.

Even though these banks are conservatively managed they have continued to show healthy growth both in assets, deposits and in net profit over the last several years since its acquisition by CCAH as indicated under:

	Deposit	Asset	Profit	($m)
1984	3,992	4,754	28.3	
1985	4,821	5,723	30.0	
1986	5,917	7,206	40.3	
1987	7,663	9,613	50.4	
1988	8.380	10.640	80.3	

8.03 On the above basis the sale value ties up with management estimated at $7.333.00 per share giving a total security value of $875.1m.

9.00 **PROVISION REQUIREMENTS**

9.01 A provision of $30m should be made to cover for the major part of the potential shortfall in security value as against loans outstanding against the unsecured portion of 2 borrowers unless of course the shares are physically acquired by any existing shareholder or any new shareholder in which depending on the acquisition value no provision may be necessary.

TASK FORCE REPORT
ON SHEIKH KAMAL ADHAM

The Task Force met the concerned accounts executive and reviewed several related files and papers and determined as under:-

1. Background

Sh. Kamal Adham has had a significant business relationship with BCCI for a considerable period of time. He is a very eminent Saudi Arabian high networth business man who has held very important positions in the Saudi Arabian Government in the past. He is also the brother of Queen Iffat of Saudi Arabia, the widow of late King Faisal of Saudi Arabia.

2. Security

Sh. Kamal Adham has two types of borrowings from BCCI. His CCAH related borrowing ($105.6m) is secured by deposit of shares of CCAH. (In addition for reasons which we are still enquiring he has pledged some CCAH shares in respect of the borrowing by Sh. Sharqi company and Faisal Al Fulaij).

His non CCAH borrowing is $207.7m. Against this he has deposits with BCCI of US$58.9m and has given the bank letters agreeing to pledge of land and buildings in Jeddah and Riyadh in Saudi Arabia valued at $34.0m (or equivalent in Saudi Riyals).

3. Concerns

3.01 **Size of Outstanding Balance/Repayment arrangements:**

Sh. Kamal Adham has a total of $313.3m outstanding to BCC covered by 40 loan accounts. Even though there are no loan agreements each borrowing by Sh. Kamal Adham or his companies is supported by a duly executed promissory note. Loan balances have also been regularly confirmed by the borrower. The customer has also agreed to repayment terms for 1989 and 1990 which deals with the repayment of a part of his borrowing. Repayments amounting to US$43.2m were made in 1989. Sh. Kamal Adham has also informed the bank in writing that he will repay a further amount of US$25m in 1990. The Task Force feel strongly that a more organised and viable repayment term should now be finalised with the client.

3.02 **Inadequately Documented Drawdowns**

Sh. Kamal Adham was allowed new drawdowns in 1989 for US$17.6m of which US$7.0m was repaid (on 3.10.89) as confirmed in Price Waterhouses' report dated 14th March 1990. Against the remaining US$10.6m of withdrawals, the account executive has shown the Task Force three written requests for withdrawal of funds for US$2.0m dated 28.9.89 and £1.01m amounting in total to US$3.65m in US Dollar

equivalent. (Photocopies attached at Annexure K).

The Task Force found from the files and documents that in the past withdrawal instructions were given on telephone for which a blanket confirmation letter was sent covering drawings from accounts. (See photocopy of letter at Annexure L).

Of late this confirmation of individual or collective withdrawals has not been done depending more on year end confirmation of balance.

The Task Force has expressed concern at the situation and now instructed the account executive that all withdrawals must be evidenced by written instructions by the authorised signatories with immediate effect.

3.03 Value of Security

PW have expressed the view that the advances are not adequately secured.

The Task Force determined that there are two valuations covering two plots of land in Riyadh and a plot of land on Palestine Road, Jeddah being 38617 square meters with a commercial centre, supermarket and large packing area built on it. The valuations of both these properties dated 28th September 1986 giving the properties a value of SR 127.8m (equivalent to US$33.96m). Two letters signed by Sh. Kamal Adham are on file irrevocably undertaking to pledge the properties to the order of the bank. The Task Force has instructed the account executive to obtain current valuations of the properties and to obtain legal opinion on what further acts are required for perfecting the banks security on the real estate in Saudi Arabia.

- The account executive confirmed that the last audited networth statement for Sh. Kamal Adham as certified by Arthur Anderson & Co., dated 29.3.1981, was US$267m which is on file. This was prepared for submission in the US for acquisition of FAB (copy attached at Annexure M). The account executive also confirmed that he is following up the preparation of an audited networth statement of Sh. Kamal Adham with his financial advisors and expects to receive it as soon as it is completed.

3.04 Excess Over Limit

PW have expressed concern over the repeated excess over limit on this clients accounts. The task force has instructed the account executive to have enhanced limits approved by the Board in place before allowing further withdrawals from the loan accounts. The Task Force was however shown that the credit limit of $315m which includes the withdrawals of US$18m, was approved by the Board of Directors on 27.11.89 reference A2\GC\90.

4.00 RECOMMENDATIONS

The Task Force has instructed the account executive to follow up on the following representations:-

(i) Obtain legal advice on the enforceability of the pledge of land and property in Saudi Arabia and to perfect it accordingly.

(ii) To follow up repayments of $25m agreed by to borrower for 1990 in addition to the interest charged, so that there is a reduction of total outstanding loan balances.

(The Task Force believe that the CCAH secured loan will be repaid on the sale of the CCAH shares).

(iii) To obtain an audited networth statement of Sh. Kamal Adham as soon as possible after the month of Ramadan.

4.01 The Task Force felt that while the sale of CCAH shares, will greatly reduce the total outstanding loans of Sh. Kamal Adham, the receipt of audited networth statement of Sh. Kamal Adham will go a long way to demonstrate his ability to service and repay his loans to the bank.

TASK FORCE REPORT
ON A.R. KHALIL

1. The review of this loan account makes really sorry reading and the Task Force feel that PW should have sought better clarification and documentary proofs in earlier years than received by them.

2. The Task Force is of the opinion that more than 80% of this borrowers total exposure of $150.3m as at 31.12.89 can only be repaid by the sale of CCAH shares which should be actively followed up by the bank. The Task Force was informed that Sh. Kamal Adham has offered to take over the CCAH shares and loans thereagainst from A.R. Khalil but saw no documentary evidence thereof. Apparently this verbal arrangement could not be effected due to the total credit already given to SKA being so large.

3. The balance of ARK's loan should be realised on the sale of his BCC shares held by A.R. Khalil which should be part of the existing restructuring of shareholding being discussed in Abu Dhabi.

4. A.R. Khalil is a high networth Saudi Arabian businessman. The Task Force feel that he should be urgently contacted to unwind his position with the BCC Group.

TASK FORCE REPORT
ON SELECTED INTERNATIONAL LOANS/TRANSACTIONS

GULF GROUP

Background

The Gulf Group is a multinational privately held group of companies owned and controlled by Gokal brothers namely Mustafa, Abbas and Murtaza Gokal with offices and presence in over 40 countries around the world.

During last few years the Group has diversified their business activities and are now involved in shipping, commodity trading, general trading, distribution, manufacturing, financial services, real estate and projects.

A substantial portion of their assets are consolidated in Gulf international Holdings (GIH), a Luxembourg based holding company, with total assets of US$ one billion and shareholders equity and funds in excess of US$ 416 million. In addition to this they have businesses partly or wholly owned by the Gokal brothers and members of their family. A report on their business activities prepared by the Gulf Group is attached. (See annexure N). The Task Force presently is unable to comment on that report without making in depth study of the Group.

Their business relationship with BCC is over 15 years old and the facilities extended by the bank have increased substantially during these years.

Liabilities with BCC (US$ million as on 31.12.89)

Nature of Category		Limit	Loans o/s	No Cos.
a)	GIH (Consolidated)	146.50	235.62	3
	PAD		6.84	
b)	Other group a/cs (unconsolidated)	109.50	162.18	8
	Total	256.00	404.64	11
c)	Dutch Cos. (owned by relations)	10.00	10.15	3
d)	Gokal Family Owned (Offshore companies)	25.40	27.24	7
	Total	291.40	442.03	21

GULF GROUP (CONT'D)

SECURITIES POOL

Deposits under lien		17.00
Bonds		17.00
Ships (Mortgaged)	33.50	
	11.10	
	44.60	44.60
GIH Shares	382.70	
add BCC lendings	242.40	
	625.10	625.10
Total Value of Securities		703.70

Note:

GIH share value above is based on net asset value of 11.5 million shares pledged. BCC lending added back above are those loans in BCC books which are in the names of companies consolidated in GIH, as discussed with Price Waterhouse. The real value of GIH shares can only be evaluated after in depth study of all companies in the group, both consolidated and non-consolidated.

The borrowings of above companies were discussed with PW on 21-3-90 as also a reasonable basis to assess 1989 provision requirements.

PW Concerns - appendix 1 (4)

PW Ref: para 3 (1)
Important issues raised in PW letter of 12.1.90 to Accounts Manager have been covered in this report.

The following documents received are being provided:
- Break-up of guarantees and borrowings (Annexure O)
- Evidence of beneficial ownership of unconsolidated companies (Annexure P).
- Evidence of beneficial ownership of Gokal family members (Annexure Q).

PW Ref: para 3 (2)
It has been observed by Task Force that the drawings were allowed substantially in excess of limits without Board approvals.

Regarding Capricorn Chartering (pty) Ltd., our enquiry from BCC Australia shows that they had discounted acceptances under letters of credit opened by BCC Grand Cayman and consequently, as per normal practice, did not show as customers liability. They also had similar credits from D.G. Bank Hong Kong and treated on the same basis.

GULF GROUP (CONT'D)

PW Ref: para 3 (3)
Board approvals for certain individual companies have been examined by TF. No satisfactory explanation has been given for not giving Group liabilities.

Regarding mention of wrong places of domicile in respect of board approvals of Pilot Petroleum and Marcotrade International. It has been explained that this was due to similarity of names of Liberian and Grand Cayman companies with those of Swiss and US companies. Anyway the board approvals of the two companies was obtained with correct account titles and were declared part of Gulf group. Therefore it could not have served any purpose. Examination of the file also shows that in case of Marcotrade International Ltd., it is self evident that 'Ltd.' company cannot be a Swiss company. Hence, it appears to a case of oversight or carelessness rather than anything else.

PW Ref: 3 (4)
Assurances given in the past were based on the promises made by the client which were not reported to be honoured. The increase in the liability is mostly due to application of interest and charges during March '89 to Dec '89 which again were not serviced by the client.

PW Ref: 3 (5)
Presently the audited balance sheet of GIH and other securities as mentioned above can be the only basis of any evaluation. Debt servicing capacity would be studied in depth together with restructuring of loans.

PW Ref: 3 (6)
Enquiries by Task Force reveals that Pilot Petroleum Corp. (USA) is beneficially owned by Gokal family as per chart provided in annexure R. However, it may be noted that there are no reported lendings by BCC to this company.

The relationship of the Gulf Group with the offshore companies is explained separately under 'offshore companies'.

Also refer report on "offshore companies" for further follow up action taken by the Task Force.

a) Management of Companies by Gulf Group or their nominees.
b) Significant inter-related transactions.
c) Ultimate beneficiary of funds/financing
d) Signatories on these accounts are people connected with the Gulf Group either by relationship or by employment.

We are told that it is not possible at present to obtain any written acknowledgement of interest from alleged beneficial owners. For reasons stated above, Task Force is of the view that all such companies should be considered Gulf Group risk until concrete proof of beneficial owner is obtained and the risk considered acceptable. In the meantime the Gulf Group should assume the responsibility and provide support of their guarantees and other securities already with BCCI.

As mentioned in earlier part of this report, enquiries from account managers have also revealed that offshore accounts of above category, in addition to those listed in Price Waterhouse Note are maintained at Kuwait and Uruguay. All such accounts with loan balances as on 31.12.89 are listed in annexure G totalling US$ 79.53. These balances should be incorporated to the total of offshore accounts.

PW Ref: Para 3 (2)
Majority of the offshore lendings domiciled in Grand Cayman, the Bahamas and Panama have operated close to limits. Excess-over-limit, where allowed, were not in conformity with normal procedures.

PW Ref: Para 3 (3)
It has been observed that in some cases drawdowns have been allowed despite excess over limits and without CCD approval. Regarding credit approval procedure for Grand Cayman proposals, Task Force has been informed that due to tax reasons, Grand Cayman credits approval was never part of normal CCD routine.

PW Ref: Para 3 (4)
PW observations that in some cases excess over limits without Central Credit Committee approval was allowed in 1989 despite representation to the contrary seems correct.

PW Ref: Para 3 (5)
Other than mortgage of ships and a property valuing in total approximately US$74 million, there is no tangible security. Therefore Price Waterhouse concerns regarding collectability are valid in the absence of proof and full financial details of the alleged beneficial owners.

SUMMARY

	$m (Balance 31.12.89)
- Grand Cayman, Panama, Nassau (as per PW list)	173.39
- Bahrain	10.65
- Kuwait	75.34
- Uruguay	4.12
	263.50

Against the above loans tangible securities in ships and a property amounts to approximately $74 million.

In view of above observ- ions of the Task Force, it was decided that efforts should forthwith be made to contact the (okals and clear the above relationship. Mr. Abbas Gokal of Gulf Group was approached y a member of the Task Force. He was asked to verify and acknowledge the financia. responsibility of all listed offshore companies for the reasons explained. Task Force was able to obtain such confirmation (Annexure O) and extension of personal guarantees and agreement that GIH shares held by BCCI should also to cover outstandings in these companies (Annexure O).

Consequently, Task Force has, for the purpose of credit risk evaluation in the absence of detailed financial information on each company separately, consolidated the position is as follows:-

(US$ million)

Liabilities				31.12.89
a)	GIH (consolidated)			242.46
b)	Other Group Accounts (unconsolidated)			162.18
c)	Dutch Co.			10.15
d)	Gokal Family owned			27.14
	Sub Total			442.64
e)	Offshore companies			263.50
				705.53
Securities				
Cash & Bonds			34.00	
Ships mortgaged		44.60		
		66.00		
		110.60	110.60	
Property			8.00	
Total Tangible Security			152.60	152.60
Net exposure				552.93

The remaining net exposure of US$552.93 million can be deemed to be covered by the 92% shares of GIH and personal guarantees held by BCCI.

Recommendations

a. Net asset value of GIH shares under pledge and as reflected in the audited accounts of GIH should be discounted at 50% margin due to lack of financials of all the companies individually and details of receivables.

b. On the basis of (a) above the uncovered net liability is $119.5 million (please see Annexure S). Accordingly US$120 million should be provided immediately pending further study.

c. BCC should set up a high powered team to complete detailed study of the group including all unconsolidated companies and make recommendation for further evaluation and restructuring.

TASK FORCE REPORT ON
MAHFOUZ FAMILY

1.00 The Task Force reviewed the loan files of the Mahfouz family, particularly regarding the loans covered in Appendix 1 (6) of PW's briefing note of 14th March 1990. The documentation in the files had not been completed for the two outstanding loans. These loan accounts were discussed with the Accounts Executive. As noted in PW's report the previous loan of US$100 million to the members of the Mahfouz family was prepaid before the final maturity date during 1989. Proper documentation had been obtained for this loan by the Bank. Two loans which are now outstanding were subsequently disbursed for US$100 million and US$46.4 million from BCC (Emirates) and BCCI S.A. Bahrain respectively on 2nd October 1989. Both these amounts were remitted to NCB, New York for credit to the account of the borrower Sh. Khalid Bin Mahfouz with NCB in Jeddah.

2.00 The Task Force noted that both these withdrawals were not supported by written payment instructions from the customer but the remittances from both these accounts went to Sh. Khalid Mahfouz's account with NCB, Jeddah. The balances in these two accounts at the year-end have been subsequently confirmed by the borrower.

3.00 The Task Force noted the concerns highlighted in PW's report and agreed that the level of placements with NCB was high. This is partly due to the fact the BCC has a reduced number of correspondent banks with whom it can do two-way business. The Task Force is trying to ascertain whether the placements were within the due from bank limits approved by the Board of Directors. Nevertheless the Task force felt that the level should be suitably reduced after further review.

4.00 In assessing Sh Khalid Mahfouz the Task Force determined that he continues to be a high net worth entrepreneur with business interests in both Saudi Arabia and abroad. The customer also places substantial deposits with the bank from time to time. At the year-end US$46 million was placed as deposit by him. This was however withdrawn in January 1990.

5.00 The Task Force found that the share register of BCCI (H) still reflected his holding of shares at 20%, over the year end. It was unable to conclude whether any interlocking arrangement existed between Sh. Mahfouz and any other shareholder. However the Task Force is aware that the proposed restructuring programme for BCC shareholding involves acquisition of Sh. Mahfouz's 20% share by institutional investors in UAE. The Task Force believes this would greatly relieve the doubts and concern of PW and perhaps some of the interlocking arrangement(s).

TASK FORCE REPORT ON
SH. MOHAMMED BIN RASHID AL MAKTOUM

1.00 The Task Force reviewed PW's note, regarding this borrowing and noted the comments that he is the effective Ruler of Dubai and is a very high networth person.

2.00 Against his drawdown totalling US$145 million in 1988 Sh. Mohammed repaid US$50 million during the same year. Even though the facilities extended to Sh. Mohammed are clean he does have substantial deposits with BCCI S.A. in Luxembourg which totals US$109.8 million at the year-end. His borrowing however is not secured by a lien against these deposits.

The Task Force noted PW's concerns regarding the absence of loan agreement, promissory notes and lack of drawdown instructions in writing.

No audit confirmation was received for 1988 despite management assurance in 1989. The Task Force is of the opinion that the confirmation must be obtained for this borrowing by the Regional General Manager of the Middle East Region or one of the senior account executives in the Middle East Region who maintain liaison with Sh. Mohammed. The lack of proper documentation should be remedied by the Middle East Regional Office.

In the Task Force's opinion it was inappropriate to provide a new overdraft facility particularly if, as suggested by PW it was linked in any way to his subscribing to the rights issue of the bank. The Task Force feels that efforts should be made for either the new overdraft facility or Sh. Mohammed to be repaid or his rights issues may be sold as part of the restructuring of the shareholding that is presently underway. Equally if there are any interlocking arrangements regarding CCAH or BCCI shares between Sh Rashid and any other shareholder this should be unbound in the process of the existing shares restructuring now in hand in Abu Dhabi.

TASK FORCE REPORT
ON SLOW MOVING ADVANCES IN GRAND CAYMAN BRANCH

PW had expressed in their first report and more so in their supplementary report that in view of the uncertainty in relation to the quality of operation effecting the different commercial accounts maintained by the branch and particularly those which has any fund movement in it, it was necessary for the Task Force to review the various accounts individually and more particularly those listed by PW to determine whether they correctly reflected the balance position and whether any provisions were required therein.

The Task Force reviewed the position and report as under:-

1.00 As mentioned in Section 2.03 of our report, Grand Cayman branch is currently holding approximately 30 slow moving accounts that it has acquired over the years from other locations of the BCC Group. (No new account has been transferred in the last three years). These accounts are managed by specific account officers nominated for the sole purpose of follow-up with the concerned clients and to evolve ways and means for their recovery, including their restructuring programme and new business possibilities wherever feasible.

2.00 The Task Force was informed that each year Price Waterhouse reviews the status of these accounts in detail and discusses with the account officers the additional provision requirements in relation to each case for the year. We were further informed by the account officers that up to 1988 the exercise has been relatively smooth and provisions have been mutually agreed each year.

3.00 During the current year's review of these accounts PW were not fully satisfied with some of their inward receipts during 1989. To assess the exact quantum of such inflow into slow moving accounts at Grand Cayman from external souces, the Task Force requested Price Waterhouse to provide a complete list of movement in all the slow moving accounts during 1989. This list was supplied by Price Waterhouse and is given in Annexure T.

4.00 The Task Force discussed these inflows with the accounts officers. The accounts officers while continuing to hold their views that they would have come from the clients were not able to provide full details of these inflows.

5.00 The Task Force therefore decided to review all cases of slow moving accounts where funds had come in and determine what would be their notional outstanding balance if the inwards transfers into these accounts were not received. On this basis they would want to reassess what would be the revised provisioning level for 1989, notwithstanding that the provision assessment on such accounts had already been completed for the year between Price Waterhouse and the concerned account officers.

6.00 The total number of slow moving accounts which received such funds during the year was 7 out of a total number of 30 slow moving advances. The total amount received into these accounts was approximately $27 million.

7.00 After further review with the concerned account officers a comprehensive statement was prepared for the seven accounts for determining the increased exposure if funds had not come in and recommending the revised amount of provision necessary. This statement is given at Annexure U.

8.00 As a result of the increased provision made in these accounts the total provision in Grand Cayman branch (including for the four accounts which were previously not finalised) would rise from the originally agreed figure of about $23.0m to approximately $50.6m.

9.00 The Task Force then sat with Price Waterhouse to individually review each case and agree the increased provision. Price Waterhouse, while agreeing with the concept and the broad figures had the following reservations:

(a) They requested further review by the Task Force in relation to three of the accounts before provision for these three could be finalised.

(b) In two other cases Price Waterhouse feels that additional provision may be necessary in view of the ongoing weakness of these cases over several years. This could add another $5m or so of additional provision for Grand Cayman.

10.00 The Committee have decided that they will further review the accounts mentioned above and come to their final recommendation for provision in the next few days.[1]

---

1 Since done. Please see page 53.

TASK FORCE REPORT ON
KUWAIT INTERNATIONAL FINANCE COMPANY

1.00 KIFCO - OFFSHORE ACCOUNTS

The Task Force, while reviewing and responding to the first report of PW had already started its own investigation to determine if any accounts had been initiated in KIFCO from Grand Cayman or London which were in the nature of 'offshore' accounts of the type referred to by PW in their report. In the course of this, the Task Force obtained a draft balance sheet of KIFCO as at 31 December 1989. This is enclosed at Annexure V. The Task Force noted that the total loans and advances of KIFCO as at 31.12.1989 was KD 48.908 million ($146.7 million). The Task Force enquired from all accounts officers dealing with 'offshore' accounts whether any such accounts had been parked in KIFCO. The results of this are reported already in the section dealing with Offshore Loans. (Item 5 of PW's first report). The amount of such loans was determined to be US$75.3m which has now been grouped with the Gulf Group offshore loans. (Please see page 28-30).

In order to further determine whether the rest of the advances in the books of KIFCO relate to KIFCO's own operation communications were exchanged with KIFCO and their external auditors and this matter was satisfactorily ascertained. See exchange of communications at Annexures W/1 to W/____

.

2.00 OTHER LARGE ACCOUNTS

In order to determine the health of the remaining portfolio of KIFCO's own advances, the Task Force required KIFCO to give details of all large accounts in excess of $5m which was the same level of information previously sought by the external auditors, Ernst & Whinney and subsequently PW. A list of such accounts was duly received from KIFCO and the total amounted to $90.5m covering 15 accounts of which 6 accounts amounting to $34.8m are already covered in 'offshore' account list mentioned in 1.00 above. The Task Force has now requested KIFCO to give a write-up on each such account. However, the preliminary communications suggest that no provisions will be required against these accounts. We expect to get the individual reports by the second half of this month. See Annexure X/1 to X/____ for communications exchanged with KIFCO on this subject.

3.00 INTER COMPANY BALANCES

PW indicated to the Task Force that it is their understanding that there is a difference between the inter company balances reflected by BCCI (Overseas) vis-a-vis KIFCO and the confirmation of balance to Grand Cayman by KIFCO. This matter was investigated by the Task Force and the reconciliation obtained showed that there was no significant difference between the two units barring year end usual transactions outstanding. (Annexure Y).

4.00 **LOCAL AUDITORS**

PW required to know why they can not be auditors of KIFCO or fully review its operation. The Task Force enquired into this matter and was supplied copies of several communications exchanged between BCCI and KIFCO in relation to the termination of the 'Management Agreement' between BCC and KIFCO in 1986. As a result, KIFCO's Board of Directors has extensive independent powers, including appointment of local auditor's and maintenance of secrecy of data. The local auditors who were affiliated to Talal Abu Ghazala, are known to be one the leading audit firms in the Middle East. However the Task Force was unable to assess the quality of their work. The Task Force nevertheless have requested KIFCO that there should be better communication between the local auditors and PW.

Regarding the proposed visit to PW the Task Force is informed that only the Board can give specific authority either to the Task Force or any external auditors (except their own) to visit and review the records of KIFCO. Effort are accordingly being made to contact Mr. Faizal Fulaij, Chairman of the company to seek such permission.

The Task Force however felt that since all the BCCI connected 'offshore' loans, as well as all the major other loans of KIFCO itself, had been reviewed by the Task Force and since direct confirmation received from the external auditors of KIFCO that all the other loans are KIFCO's own and under local management (where no significant provisions were sought in 1989 as per KIFCO's audited accounts in 1989) further review can be deferred to 1990 given the time constraint under which the Task Force is working.

5.00 **IZ COMPANY FOR EXCHANGE**

The Task Force was able to ascertain that the IZ Company For Exchange is a small subsidiary of KIFCO and has a very low level of activity, mostly as a foreign exchange bureau for currency transactions. The Task Force is seeking to obtain a copy of the company's balance sheet for December 31, 1989. The Task Force has not yet been able to obtain details of transactions for which Price Waterhouse are seeking clarification. Task Force will seek further information from KIFCO.

TASK FORCE REPORT
ON BANQUE DE COMMERCE ET DE PLACEMENTS (BCP)

1.00 PW has stated in their report that Swiss secrecy laws have prevented them from obtaining information relating to certain customer accounts, by the incumbent auditors. Task Force finds itself equally helpless for the same reasons.

2.00 Task Force has however enquired from Mr. Imtiaz Ahmed, (Executive-in-Charge, Central Credit Division, who is also a member of BCP Board), regarding the year end loan portfolios. Mr Ahmed confirms that the loans over five million referred to by PW's supplementary note, do not pertain to any common customer of the BCC Group.

3.00 The Task Force believes that PW can obtain further reasonable satisfaction from Dr. A. Hartmann who is also Chairman of BCP's Board and a member of BCC Audit Committee on above and any other BCP related matters.

TASK FORCE REPORT ON
SAUDI DEVELOPMENT AND COMMERCIAL COMPANY (SDCC)

1.00 The Task Force has obtained only limited amount of information on SDCC upto now.

2.00 The relationship appears to have started many years ago when Mr. A.L. Kazandar was operating in Saudi Arabia on behalf of BCCI seeking to obtain a direct banking presence for BCCI in this country.

3.00 In the meanwhile the Saudi Development and Commercial Company was established in July 1974 with a capital of SR 7m primarily for construction and real estate activity and trading and trade financing, the latter with ability to handle the financing of import of <u>other</u> Saudi entities by using its own credit line established originally with Al Jazirah Bank and subsequently with Bank Al Saudi Al France under cover of BCCI.

4.00 The shareholding has altered somewhat during the last several years and is currently set to be as under:-

1. Mr. Abdul Aziz Yousef Yasin	- Businessman	35%
2. Mr. Ali Salmeen Basmair	- Businessman	30%
3. Mr. Abdul Latif Khazandar	- Banker	20%
4. Sh. Ali A. Bughshan	- Businessman	8%
5. Mr. Abdul Aziz Suleman	- Chairman Al Jazirah Bank	7%

All the above individuals are stated to be high networth individuals and hold responsible positions in the country. The Task Force has not yet had an opportunity to meet any of the share holders. However Mr Khazandar and Sh Ali Bughshan are well known to some of the Task Force members.

5.00 SDCC has over the last several years constructed several buildings and apartments and own a valuable plot of land.

6.00 It has also directly invested in several companies, including:-

1. Credit & Commerce Insurance Co. - Saudi Arabia (CCI)
2. Arab Investment & Commercial Co - Morocco (AIC)
3. Saudi Egyptian Co. for Investment and Finance - Cairo (SECIF)
4. BCCI Financial Services (Pvt) Ltd. - Dubai (BCCI(F)S)

It is known to the Task Force that CCI is one of the leading insurance companies in Saudi Arabia and that SECIF is an active investment and finance company in Egypt with leading insurance companies and high net worth private investors as co-shareholders.

7.00 SDCC has availed of various credit facilities from BCC more or less on an ongoing basis.

The balance as on 31.12.89 of various accounts have been stated as under by PW and were found to be correct as under:-

BCCI O/S Grand Cayman	$14.7m
BCCI SA Bahrain	$ 4.8m
	$19.5m
Placement by BCCI Grand Cayman on roll over basis	$25.5m

Both the above credit lines had approval of the Central Credit Committee partly on the security of shares and partly clean and the Task Force was able to see documentary evidence of this.

8.00 The Task Force was not able to ascertain balances stated to be reflected in ICIC's books to which it has no access. However PW who audit ICIC will probably have identified the correct balance of $8.3m.

9.00 The Accounts Officer concerned in SDCC affairs was able to give some information (in reasonable detail), including on investments of SDCC. (In this context the Task Force is directly obtaining from Cairo the latest balance sheet of SECIF or other valuation statement). However regarding the operative account which was apparently set up for SDCC to finance import business on its own account and on behalf of other Saudi clients who use this credit line for imports made by their companies, the information was scanty.

10.00 This business was stated to have started several years ago with BCCI SA (UK) with Mark Lane Branch being directly involved in maintaining the account and the related documents. The Task Force is seeking to obtain some old records from Mark Lane Branch to get a better feel of the nature and volume of this import-related business.

This account has since moved to Grand Cayman. Since the departure of a senior nominated officer from BCC two middle ranking officers and some of the Saudi investors are directly handling the relationships.

11.00 Regarding the placements from Grand Cayman the Task Force was able to ascertain that this placement has formal approval limit, expiring on 30.6.1992

for US$15.0m subsequently raised to $30.0m. However excesses have been allowed upto $35.0m. In 1989 the placement has been reduced from $35.0m to $25.0m and is currently being rolled over regularly on short term basis. The Task Force recommend that the line should be further reduced and much more actively monitored.

12.00 The Task Force felt that given the time constraint in its finalising the report, the review of SDCC should be more effectively carried out in 1990 and in the meanwhile in consultation with PW it agreed to set up an ad hoc provision of $10m for 1989.

In this context the Task Force however felt that the valuation given by PW on SDCC's investment in Cairo (SECIF) is excessively conservative and could be higher, which would reduce the net exposure. However this can not be firmly determined till the Valuation Report comes from Cairo. A computation prepared by the Accounts Officer (Annexure Z) has also been ignored by the Task Force since it is not being supported by any locally vetted set of accounts of the company.

TASK FORCE REPORT ON
MR. M.M. HAMMOUD

1.00 Background :

Mr. M.M. Hammoud is a leading Lebanese businessman whose principal business is property development internationally. He also has interest in international trading business. He is a significant shareholder of BCCI Holdings with 2,646,184 shares in BCCI Holdings. This amounts to 3.55% of the total shares of BCCI Holdings at 31.12.1989. These shares are valued at US$105.84 million based on the price at which the last shares of BCCI Holdings were sold. He also owns 18,200 shares in CCAH which amounts to a holding of 6.30%. His holdings in CCAH are valued at US$133.46 million.

2.00 **Loan against CCAH Shares (BCCI : US$15.1 Million)**
- to Rubstone Trading Corporation SA

Rubstone Trading Corporation SA is a Panamanian company which was incorporated under Public Deed No. 6140 of May 7th, 1986 in Panama. This corporation was found to be beneficially owned by M/s Youssef Shehadeh and Kamel Rahhal, both of whom have a general Power of Attorney to act on behalf of the company. Mr. Shehadeh and Mr. Rahhal are stated to be business associates of Mr. M.M. Hammoud. (We were shown a confirmation in writing from Mr. Hammoud's office that he does not hold any shares in Rubstone Trading Corporation SA). One of the employees of Mr. Hammoud however holds a Power of Attorney for this company which has apparently been given by the beneficial owners Mr. K. Rahhal and Mr. Y. Shehadeh.

The Rubstone Trading Corporation has an outstanding loan of US$15.1 million at BCCI Luxembourg branch secured by a deposit of 2,803 CCAH shares which have been valued by the management at US$20.6 million. These shares are owned by Mr. M.M. Hammoud but have been cross- pledged by him to secure the borrowings by Rubstone Trading Corporation SA against the deposit of his shares.

The Task Force has been informed by the Accounts Executive, Mr. Imran Imam that Rubstone Trading Corporation SA had expressed an interest in purchasing the shares of CCAH from Mr. M.M. Hammoud. Pending the availability of the approval of other shareholders and the federal Reserve.

3.00 Notwithstanding the above stated facts and a few supporting documents produced by the Accounts officer, the Task Force is unable to conclude whether the shares belong to anybody other than Mr. Hammoud and if so whether he is beneficial owner in his own right or partly as nominee for any other shareholder. However in view of the total value of the underlying shares (as stated in 1.00 above) the loans by BCCI are considered to be adequately secured.

4.00 Hammoud - Other a/cs

4.01 Invesco

Loan :

Allowed in 1987 US$ 7.00 million. Present o/s $8.50 million.

Background

The above company was set up by business associates of Mr. Hammoud, with the purpose of acquiring business & assets of M.A.H. Jabali, who had facilities for US$10.00 million in Egypt. Jabali was dealing with AEG electrical goods in Egypt and Lebanon. The party encountered problems in business and was trying to sell the business to repay stuck up Liability with BCC (Misr). Mr. Hammoud & his business associates in Lebanon (INVESCO) became interested to take over Jabali's business & assets & liabilities.

In arrangements with Jabali, Invesco agreed to purchase the outstanding loan at a significant discount i.e. for US$7.00 million only. BCCI agreed to this new loan to INVESCO to be repaid over 6 years (expiry 31.12.92). This was done with the approval of Central Bank of Egypt.

Invesco have already shifted electrical goods to Lebanon and stored them in a warehouse in Beirut as there is demand for these goods in Lebanon.

Directors/Partners

(1) Mr. Jamal A. Rahal
(2) Mr. Issam Y. Younness
(3) Mr. Saad Eddine Saab

Existing Security

(a)	Stock valuing	US$ 1.00 million
(b)	Debtors	US$ 1.00 million
(c)	Mortgage of Properties in Beirut in favour of nominee of the Bank Mr. Hammoud	US$ 7.50 million

Existing Repayments Arrangement

(a) Sale proceeds of Stocks in Lebanon
(b) Sale proceeds of properties in Lebanon.

4.02 Middle-East Commercial Agencies (MECA) SAL

1. Background

The above company was set up with the purpose of acquiring 14 stuck up accounts from BCC (Misr), which had borrowings of about US$30.00 million & LE 4.00 million. All the borrowings were bought by the above named company at a substantial discount of US$8.00 million. The acquisition was done with the permission of Central Bank of Egypt.

BCCI Cyprus allowed the Loan to fund part of the acquisition. The present outstanding is US$6.2 million (as on 31.12.89). It is unsecured but covered by Personal guarantee of the directors who are business associates of Mr. Hammoud.

Apparently one of the principal purpose of acquiring the various business accounts in Egypt through Invesco and MECA, by Mr. Hammoud, (and his business associates) was to have a significant local presence in Egypt as they saw a lot of business opportunities in this country.

Through this process they have now established a new local company with the intention to follow through the recovery and restructuring the businesses and accounts purchased. Services of an officer of BCCI has been seconded to this company to assist the process of recovery which we are informed is slow. However this important foothold in Egypt has given Mr. Hammoud and his associates new opportunities in Egypt.

5.00 Price Waterhouse Concerns

1. Absence of critical information

The Task Force has been informed that Mr. Hammoud is the business associate of the directors of all the three companies. The property mortgaged in Lebanon is held in the name of Mr. Hammoud as nominee of the bank. PW has already seen documentary evidence of all the securities.

2. Management representations

Task Force is informed that previous representations were based on the available record with no formal evidence/connection with Hammoud. As a result of discussion with Account Executive, Task Force is now in a position to say that these companies are part of the Hammoud Group.

3. Evidence of recoverability

Although the Loans are covered by Securities as stated above but Task Force agrees with the concerns expressed by PW as no information/ evidence is available on borrowing companies to support the lending. No repayment and even interest has not been serviced in the a/c of Invesco.

Price Waterhouse has already reviewed the securities. According to the Account Executive total outstandings are covered by securities of properties and shares.

In view of the above the Task Force recommend that any question of provision against these accounts should be considered in 1990. In the meanwhile greater efforts should be made to activate these accounts.

ICIC exposures have not been dealt with in this report.

TASK FORCE REPORT ON
SAIGOLS

Summary of Outstanding Balances

31 December 1989
$ Million

	Gross	Suspense	Provisions	Repayments	Net
Grand Cayman	20.9	(3.5)	(2.0)	(1.5)	13.9
Bahrain	8.5	-	-	(2.2)	6.3
BCC Emirates	1.8	(0.2)	-	-	1.6
Total Exposure advised by BCCI	31.2	(3.7)	(2.0)	(3.7)	21.8
ICIC Exposure	12.9	-	-	-	12.9

1.00 **BACKGROUND**

The Saigol Group is one of the major industrial and trading groups of Pakistan. After the nationalisation, of substantial part of their assets in 1972 and their bank (UBL) holding in 1974, they sub-divided their business into smaller groups, which was completed by 1987. Mr. Rafique Saigol, Chairman of the group and his brother Shafique Saigol are controlling the principal businesses.

The activities of the group, presently, consist of the following companies:-

1. Mohib Textile Mills Ltd: a spinning mill consisting of 37,000 spindles located at Muzzaffargarh in Punjab province of Pakistan. It employs about 1,000 workers and produces annually over 9 million lbs. of cotton, viscose and polyester yarns.

2. Kohinoor Consultants (Pvt.) Ltd: a company located in Karachi with branch offices at Lahore and Islamabad, specialises in providing consultancy services and represents leading foreign machinery manufacturers of the world.

3. Kohinoor Trading (Pvt.) Ltd: a trading company located in Karachi, primarily exporting textiles to USA, EEC, Far East, Middle East and Africa. Recently, it has set up its own weaving factory for cotton textiles in Karachi. It also imports man-made fibres and yarns, pulses, cement, plastic moulding compounds, chemicals. Turnover year ended 30th June, 1988 about Rs 200 million.

4. Rashed al Rashed (Cement division): a Saudi partnership between Rashed Airashed & Sons group of Saudi Arabia, Ssangyong Cement Co. of South Korea, and the Saigol Group, has become the largest distributor of cement in the Kingdom of Saudi Arabia. Originally, it started out by importing cement in bulk from Japan and South Korea but since last year it has switched over to selling locally produced grey cement, importing only while cement from Ras Al-Khaimah in UAE. It sold about 1.74 million tonnes of

cement in 1988 valuing about SR 250 million. The receivables on 31st December 1988 amounted to SR 83.6 million.

5. Trans Saudi Establishment: transport business in Saudi Arabia. Started in 1983. It has concentrated on the cement trade and is now planning to expand into other fields such as food grains and petroleum products. This turnover during 1988 was SR 25 million. Assets on 31 December 1988 were values at SR 9.3 million.

6. The latest venture of the Group is a proposal to Compania Dominicana de Aviacion, the national airline of the Dominican Republic, to provide management support in association with Pakistan International Airlines.

7. The Group also owns a large agricultural farm in Punjab province, Pakistan. The market value of this land is estimated to be about RS 60 million.

2.00 **Security**

Personal Guarantee of Mr. Rafiq Saigol & Shafique Saigol.

3.00 **Concerns**

3.01 **Evidence of Recoverability**

The position of accounts at Grand Cayman, BCC (E), Bahrain & ICIC has since been discussed at length with PW including issues involved which were covered in PW's first report.

Task Force is of the opinion that in the past Saigols have not honoured their commitments. Due to unsatisfactory conduct of the accounts, and concerns expressed by PW existing situation cannot be allowed to continue. We must discuss with the clients to service the interest and obtain definite repayments schedule so that liability is repaid gradually within the agreed period. No further facility should be allowed unless it is secured by tangible securities or it is to finance specific transactions of self liquidating nature duly supported by documentary evidence.

3.02 **Provision**

In the meanwhile Task Force recommends that the existing provision of US$2.0m should be raised to $15.778m for 1989 for the total Saigol Group of liabilities to BCCI.

3.03 In this context the Task Force reviewed the two loan accounts totalling $10m initiated in 1989 in Bahrain on which PW had expressed concern. These were Fallaha Said Mansouri and Saif Hamad Ghumran.

Detailed discussion with the Country Manager in Bahrain and the Accounts Officer indicated that while 'front' companies had been used for this purpose, Saigols had apparently been involved with Khamis (a UAE party) to monitor new business in UAE (textile/chemical?) to generate profit and commission to pay off the outstanding loan account of Al Khamis in UAE. Since the proceeds of the loans had been used to pay off the Al Khamis loan and no business had been as yet initiated by Saigols the Task Force recommended that the full amount of $10m should be provided against.

TASK FORCE REPORT ON
NUMBERED ACCOUNT NO. 11011103

The Task Force enquired into this account and determined from the records of Grand Cayman that Mr. S.M. Akbar had authorised this remittance from Grand Cayman to the debit of the account of Sh. Al Sharqui, i.e. Mashriq Holding Company, which is beneficially owned by the Ruler of Fujeirah. This is not the account of Sh. Ibrahim which may have been inadvertently noted by Price waterhouse due to commonality of names. On further discussion with the Accounts executive we were informed that this loan has been given in Marshriq Company as a part of their global limit. The Task Force found that the manner in which this numbered account loan had been disbursed and is currently being managed is wholly unsatisfactory, however it is our belief that in the share restructuring now in hand in Abu Dhabi any excess drawings by shareholders will also be considered for settlement.

TASK FORCE REPORT ON
THE PHARAON BROTHERS

1.00 Wabel Pharaon

Wabel Pharaon is a Saudi businessman who is the youngest brother of Dr. Gaith Pharaon. He has been a minor shareholder of BCCI in his own right since the early eighties. His holding in BCCI Holdings increased when as per PW's report, Dr. Gaith Pharaon sold his shares in BCCI Holdings to him. As per the share register of BCCI Holdings Wabel Pharaon now owns 8,599,631 shares which was 11.55% shares of BCCI Holdings. The shares have a valuation of US$343.98m based on the price at which shares were last sold by a shareholder.

The bank has no lending to Wabel Pharaon. He has however loan facilities from ICIC of US$75.4m against a pledge of 2.5m shares of BCCI Holdings. The Task Force believes that either Wabel Pharaon should clear his loan with ICIC or if in any way he is a nominee of any other shareholder such shareholder should directly acquire these shares and clear or at least significantly reduce the outstanding loans.

2.00 Dr. Gaith Pharaon

Dr. Gaith Pharaon is a leading Saudi Businessman who has wide range of business interests and investments from Macao to the United States of America. A write-up on Dr. Pharaon which gives his background and wide ranging business interests is given in Appendix AA.

The loans to Dr. Pharaon have been approved under a global facility by The Central Credit Committee and the Board of Directors. However, the loan balances at 31.12.1989 were $100m in excess of his limits. His borrowings are stated to be always from specific trading transactions or for acquisition. The purpose is always explained to the account executive. The major part of his BCC exposure is secured against shares of other companies and deposits. Unsecured exposure as on 31.12.89 was in excess of US$100m.

The Task Force has instructed the account executive to obtain Dr. Gaith Pharaon's net worth statement to demonstrate his creditworthiness and ability to service and repay his borrowings.

3.00 BCCI Share Transactions

Wabel Pharaon

Wabel Pharaon acquired 105,321 shares of BCCI Holdings (Luxembourg) SA from Mohammad Taufiq Jiddan according to the Luxembourg share register. PW's questions where the financing for this purchase came from and why Wabel Pharaon purchased further shares when he is apparently trying to reduce his exposure in ICIC. The Task Force does not have access to ICIC's records, nor to Wabel Pharaon who could provide his reason for doing this. However the same comments, as made by Task Force in para 1.00, also apply here in general terms.

Dr. Gaith Pharaon

PW's report states that $5.4m is the amount debited to overdraft a/c of Dr. G. Pharaon representing purchase consideration for 111,709 shares of BCCI Holdings (Luxembourg) SA sold by Suhail Faris Al Mazrui. There are no instructions from Dr. Pharaon or from the seller of the shares supporting this drawdown or transaction. This transaction has not been recorded in the shareholders register of BCCI Holdings (Luxembourg) SA up to now. The Secretary of the Board confirmed that share transfers are only registered when the shares are lodged for transfer along with duly executed transfer deeds, with the bank in accordance with normal practice and that this had not happened for these shares.

TASK FORCE REPORT ON
GRAND CAYMAN RISK FACILITIES (ADDITIONAL ACCOUNTS)

1.00 This section is an extension of an earlier part of this report (see Section 8).

PW in their Supplementary Report raised some additional accounts on which they expressed dissatisfaction on the level of provision, though in several cases these provisions have already been agreed for 1989 with the local branch management/CSO accounts officer(s).

2.00 In response the Task Force collected as much papers and files relating to these accounts as they were able to do within the constrained time period; The Task Force also met the concerned accounts officers.

Thereafter they jointly reviewed each case with PW. Each case was fully discussed and specific provision set up by mutual agreement on each such case. As a result, additional provision amounting to $ ____ m were added to provision earlier agreed for Grand Cayman branch by Price Waterhouse and the Task Force as per section ___ page 34 and 35.

Detail Statement of Risk Facilities and Provision is given in Annexure B.

TASK FORCE REPORT
ON IBRAHIM FAMILY

1.00 Executives in charge of this relationship presently is Mr. Bashir Chowdry, Regional General Manager for UK. He has informed the Task Force as follows:-

2.00 Shaikh Abdul Aziz Al-Ibrahim is brother of first wife of King Fahad of Saudi Arabia. He has 5 brothers and two sisters and is the head of the family. His relationship with BCC is 7-8 years old. He is reported to have substantial real-estate investments in USA, UK, Spain, Morocco and South of France besides Saudi Arabia.

2.01 He is considered a high networth individual and has maintained good deposits with BCC in various currencies.

3.00 The Executive in-charge confirms that this account has been regularly discussed with PW's UK partner every year. Deposits in the name of Shaikh Abdul Aziz Al-Ibrahim (US$133 million as on 31.12.89) fully covers the borrowings. Other family members have deposits totalling $19.29 million at year end.

4.00 However, the Task Force is of the view that balance confirmation of all accounts must be obtained at least once a year in view of substantial balances and turnover. The Account Executive has informed the Task Force that such confirmations can only be obtained during his next visit to London.

TASK FORCE REPORT ON
PRINCE/IMC GROUP

1.00 The Task Force reviewed the comments of PW and determined that this case has been under discussion with management for several years.

2.00 The Task Force felt that this was a very complex project and not only involved BCC, but also ICIC, who had a major stake in the project through various subsidiary companies which have either acquired equity or have provided loans to this hospital project. It would therefore be difficult to come to a quick conclusion or finding.

3.00 Nevertheless the Task Force collected all the previous material on this project, including many financial papers and files and noted as under:

- Total loans from BCC Group to Prince/IMC was $105.6m
  Total loans from ICIC to Prince/IMC was $ 46.3m
  $151.9m

- The Hospital owing company had assets of $105.2m
  (before revaluation)

- Gross earnings of the Hospital operating
  company were: 1989 £22.175m
  (estimated) 1990 £22.200m

4.00 The Task Force decided to set up a Special Team of two finance officers to unwind the interlocking arrangements and financing and to assess the potential shortfall in the loans given by the BCC Group to this project. This team will complete their work in 4 weeks.

5.00 As the project is a complex one and firm report of the study team will take time, it was agreed after full discussion with PW, that a provision of $9.5m should be set up for the 1989 as 'computed' by PW to cover for possible shortfall.

This case will be further reviewed in 1990.

6.00 The organisation structure of Prince/IMC Group and it's funding is given in Annexure CC and DD respectively.

TASK FORCE REPORT
ON HAJI ALI SULTAN MOHAMMAD FADEL

1. SUMMARY OF OUTSTANDING:-

GC			
Original (31.1.85)	US$ 10.63		Expiry 18.12.89
Renewal (6.10.89)	US$ 12.00		Expiry 31.12.90
Present O/S (GC)		US$ 12.20	
Bahrain			
Original (31.12.88)	US$ 5.00		Expiry 23.3.90
Present O/S (Bahrain)		US$ 6.20	
Total		US$ 18.40	

1.00 BACKGROUND

Haji Ali is a leading businessman of Oman and is regarded very high in official, social and business circles. (Please see Credit Report of Standard Chartered Bank, Commercial Bank of Oman and Bank of Muscat). (Annexures EE/1 to EE/____).

His Majesty Sultan Qaboos of Oman assigned him in the past prestigious assignment including vice chairman of Consultative Council (equal to parliament and chairman of the Federation of Chambers of Commerce of Oman.

The details of some of his assets are reported to be as follows:-

(a) Property in Madina Qaboos	US$ 12.0m
(b) Other properties	US$ 4.0m
(c) Properties outside Oman	US$ 2.0m
(d) W.J. Towell	US$ 10.0m
(e) N.B.O.	US$ 16.0m
	US$ 44.0m

He is reported to have investments in the following as well:-

(a) Oman International Bank (Largest bank of Oman)
(b) Taylor Woodrow, Oman (in partnership with Taylor Woodrow UK).
(c) National Beverage Company
(d) Muttrah Cold Storage
(e) Oman National Dairy Product

He is reported to be in a position to avail of clean facility of US$15 to US$20m from any bank in Oman. The security held by BCC is more as a comfort.

2.00 **SECURITY**

(a) GC	1,080,000	Shares of NBO	9.9% of the issued capital.
(b) Bahrain	700,000	Shares of NBO	
	1,780,000		(37% NBO shares are held by his company W.J. Towell & co.)

3.00 **CONCERNS**

- PW have wanted some tangible evidence of recoverability.
- On examination of files and records Task Force has observed that US$3.73m was paid by the Borrower during this period, but it covers about half of the amount of interest/charges debited. Last payment received was US$1.00m on 27.3.89. During this period bonus shares were also received as additional security.

The conduct of the account has not been satisfactory and we agree with the concerns expressed by the PW, in this respect.

Task Force is informed that average value of shares has been calculated @ equivalent of US$9.00 per share on the basis of the major transactions which took place in 1986. Task Force has also been informed by the Account Executive that although two other small transactions between the two shareholders also took place at a lower rate also but was by special arrangement under buy back. No documentary evidence to this effect has been made available. While the Task Force is of the opinion that average value of $9 per share (on the basis of the last major transaction) may be can be considered on the high side, it would however also be unreasonable to calculate it purely on the basis of net asset value as indicated by PW, due to the following reasons.

(a) NBO is the 2nd largest Bank of Oman

(b) Initially NBO performed functions of Treasury of Govt of Oman. It still plays a leading role in all the major financial activities in Oman including participation in syndication of Govt FC Loans.

(c) All the shares are tightly held by few shareholders and are not traded as there is no stock market.

(d) Haji Ali Group holds majority shares of NBO and the value of such block shares is always much higher than the value of a small number of shares sold under some special arrangement.

Task Force is of the opinion that there is substantial value in the security of shares. In case BCCI wants to enforce the Security it would be possible to sell the shares to local investors.

PW concerns are understandable because interest has not been fully serviced but it would not be right to assume that he does not have the capacity or willingness to pay.

Account Executive has received confirmation from NBO that Haji Ali does not have liability with other banks and his name does not appear in Central Bank risk bureau records.

Latest balance confirmation in respect of both accounts have since been received and shown to PW.

4.00 OTHER CONCERNS

- PW recommendation to treat loan as BCC investment.

- Task Force does not agree with PW comments that the Loan is to be treated as an investment of BCCI, written down to the net assets value of NBO.

- It is not possible for BCCI to acquire these shares which Haji Ali purchased from BOA because of the following reasons:-

  A. Haji Ali had purchased these shares we are told, to become majority share holder.

  B. Local regulations prohibit foreign shareholding to exceed 49%.

Account Executive should, in consultations with the client obtain repayment schedule and regular servicing of interest on quarterly basis.

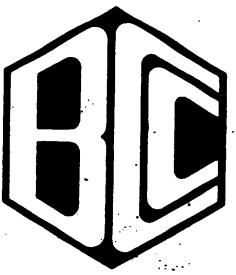
Task Force recommends that provision at least to the extent of unpaid interest of US$3.5m may be made. However we are informed that management has agreed to make a substantially higher provision.

TASK FORCE REPORT ON
FAISAL SAUD AL FULAIJ

1.00 Faisal Saud Al Fulaij is a Kuwait businessman of high networth. He is a former Chairman of Kuwait Airways and has wide business interests. He is also Chairman of Kuwait International Finance Company.

2.00 His loan exposure to BCCI as at 31.12.89 amounted to US$112.9 million which is secured against 16,710 CCAH shares of CCAH. These shares are valued by the management of the bank at US$122.5 million. He is one of the original shareholders of CCAH and has taken up a number of rights issues since the acquisition of FAB in 1982. He also owns 1.1 million shares in BCCI Holdings (Luxembourg) S.A. which are valued at US$45.6 million.

3.00 Mr. Fulaij has borrowings amounting to US$35 million from ICIC against some shares of BCCI Holdings and other companies as listed in PW's supplementary briefing paper. In the absence of access to further details of ICIC operations the Task Force is unable to conclude the basis of this funding. However as shown in Annexure FF the total combined exposure of Faisal Fulaij in BCCI and ICIC is covered by his combined holding of CCAH shares and BCCI shares. No provision is therefore necessary. However his credit lines should be reviewed and suitably scaled down.



EXECUTIVE SUMMARY OF

FINDINGS OF THE TASK FORCE

1.00 Most of the concerns expressed by Price Waterhouse in their Initial Report to the Task Force of 14th March '90 (covering 9 large loans case plus several slow moving advances in Grand Cayman) and the Supplementary Report of 6th April '90 (covering 12 loan cases including some more slow moving advances in G/C) were after detailed case by case review by the Task Force, found to be valid and justified and required significant amount of additional provisioning.

2.00 The Task Force review of the global audit arrangements of the BCC Group showed that these arrangements (covering all the Group's 'consolidated' locations (71) incorporating 30 banking units) are both intensive and extensive. In the earlier years they were carried out primarily by Ernst & Whinney (now Ernst & Young) with Price Waterhouse (PW) doing the audit of BCCI (Overseas) Ltd, Grand Cayman since 1975. From 1987 the global audit was consolidated under PW.

2.01 The audit is done in two parts - an interim audit covering the Groups' 9 months results up to September (done in October/November) and a final audit in December (extending from January to March of each subsequent year).

2.02 The global 'Audit Instruction' and 'Questionnaires' issued by PW to all local offices of PW and in some cases to other audit firms (where PW were not directly present) were comprehensive and extensive).

2.03 Senior partners of PW from UK and other key locations travelled to nearly a dozen key locations of BCC including Grand Cayman to directly review the local operation and the quality of audit and their audit findings.

2.04 Management's view that PW had full access to all locations' records and documents were found to be correct (with the exception of Grand Cayman where serious difficulties were faced by PW).

2.05 The Task Force was informed, that PW also did not have adequate access to 2 non consolidated unit's records - Kuwait and Switzerland. This was said to be due to secrecy laws and minority shareholding of BCCI. Independent Local Board of Directors were responsible for these 2 operations.

3.00 The Task Force found that more or less all the loan cases and transactions referred to by PW in their two Reports related wholly to the Grand Cayman branch of BCCI Overseas (or to ICIC) both of which were, audited by Price Waterhouse from their very inception.

3.01 The Task Force found that even where the counterpart of the transactions or loans were "parked" in other BCC location they were invariably initiated from Grand Cayman (or ICIC).

4.00 The audit findings of 1989, for the rest of the BCC Group were reviewed in depth by the Task Force; These were found to be very normal and indeed the issues raised were minimal as far as significant items were concerned, indicating that Management's view was correct that there has been considerable improvement year on year, in the global quality of operation in the BCC Group. This was also independently reconfirmed to the Task Force by PW.

5.00 The entire series of loans/transactions identified by PW as "matters of concern", fall into 3 broad categories.

A - Loans/Transactions relating to CCAH shareholders and granted to them either by BCCI (or ICIC). (CCAH is the vehicle used by some of the BCC shareholders for acquiring the First American Bank Group covering the East Coast of U.S.A.)

B - Loans/Transactions relating to shareholders of BCCI (Holdings) Lux, SA granted primarily by ICIC.

C - Certain very large commercial loans granted primarily in Grand Cayman branch to a number of Business Houses or businessmen, which besides the risk of concentration of such loans to a few companies/individuals, and the corresponding risk of repayment, also had extremely poor documentation and supporting evidence of its use.

5.01 The Task Force was able to conclude with reasonable certainty that the 'problems' related entirely to these three categories of loans and transactions and did NOT spill over to the global business and activity of the Group which covered 1.3 million customers in 73 countries with 58 currencies, and a total advances portfolio in excess of US$11 billion.

5.02 The local audits and regulatory controls in all the BCC countries were found to be of a high order, safe-guarding the quality and health of the bank in all these locations.

6.00 Regarding items A and B above i.e. Shareholder Loans

6.01 The Task Force after many hours of interviews with the concerned Accounts Executives/Accounts Officers and reviewing many files and documents made available to it (most of which were of very poor quality) concluded that:

- these share backed lendings from BCCI and ICIC, either for share acquisition or commercial/personal reasons, extended back to several years.

- had very inadequate supporting documents including absence of written requests from the shareholders or clients.

- often no written report of the purpose for the loans/transactions and

- in quite a few cases not even year end confirmation of balances.

6.02 The Task Force therefore confirms the 'concern' of PW in many of the referred cases.

6.03 The Task Force simultaneously expresses considerable surprise and disappointment at such obvious flaws in basic banking procedures and documentation .

6.04 The Task Force feels that the regular annual audit thereof should have easily detected and corrected such haphazard transactions several years ago.

6.05 The Task Force concludes that there is little doubt from the sparse records available and inadequate explanations given by the Accounts Executives/Officers that there must be some 'interlocking' arrangements between the shareholders of both BCCI Holdings (Lux) SA and CCAH whereby in several cases 'nominee' routes may have been taken to front each others investment in these two banking groups with corresponding loans being drawn from BCCI (& ICIC) to fund such 'interim' holdings.

6.06 However the Task Force concluded that as the underlying security/asset i.e. shares of CCAH and shares of BCCI (H) both have considerable real and tangible value and market worth; Therefore the real risk to the bank is in any shortfall in their gross exposure viz a viz the valuation of security and the need to provide against it. Management and PW have provided alternative basis for computing these valuations. PW's computations shows a significant shortfall while management's valuation adequately covers the exposure. The Task Force felt that in the case of CCAH some 'general provision' is called for. (This is recommended at US$30 million.) However no such provision is deemed necessary for BCCI (H) cases.

6.07 The Task Force has been informed that negotiations are at an advanced stage in the United Arab Emirates (UAE) with certain major existing shareholders of the BCCI Group - both individuals and Institutional, whereby they would acquire substantial amounts of additional shares of BCCI Group, and shortly thereafter shares of CCAH - at previously transactional price of $40 per share and at 'carrying cost' respectively. This would unwind the outstanding 'interlocking' arrangements and greatly reduce the exposure of the bank to such shareholder loans.

6.08 The Task Force recommends vigorous follow through of this vital Plan of Action.

6.09 The Task Force also recommends that in future there should be no interlocking or nominee arrangements for shareholders of BCCI (H) and CCAH, if such exists at the moment.

7.00 Regarding item C of para 5.00 i.e. Commercial Loans

7.01 The Task Force subdivided these loans into 2 categories:

A - Normal commercial loans, granted primarily in Grand Cayman branch, that required further review of their year-end exposure and if necessary to enhance their cumulative provision in 1989.

B - Loans of the Gulf Group (Gokals) and all related "off shore" companies/loans linked directly or indirectly to this Group.

7.02 Regarding 7.01 - A the exercises has been completed with extensive and detail input from PW. As a result additional provision of $ 79 m over and above the $21.00 m already agreed with PW for Grand Cayman branch has been recommended to be set up in the 1989 accounts of the Group. This additional provision is now agreed with PW.

03 Regarding 7.01 - B Gulf Group and Related Accounts - this area of the bank's activity is perhaps the most depressing part of our findings. The Task Force after very extensive meetings with the concerned Accounts Executive/Officer and very detailed review of the several dozen files and documents made available to it were surprised and dismayed at the very poor quality of supporting documents which was supposed to be covering activities going back to 5 years and more and involving over $250 million in loans ranging from $1.5 to over $10 million in the books of Grand Cayman and also "parked" from Grand Cayman in several less controlled locations of BCC i.e. Panama, Bahamas, Bahrain, Uruguay and Kuwait.

It took the Task Force only a few days to note that nearly each of these cases had common patterns of initiation, activity, fund flow, weak documentation and vague explanations from the concerned account officers which any reasonable audit process should have tracked down, identified and stopped forthwith. That it extended over so many years is a great disappointment to the Task Force - particularly since their initiations was all from the same source in Grand Cayman (and London).

The explanation given by the Accounts Officer that the business was initiated by high networth clients from the Sub Continent who wanted confidentiality and these loans were intended for shipping and/or trading business, on a project to project basis, with input from the Gulf Group, is likely to have been valid in the very early years of initiation of the business when a senior bank officer - one Mr. Hashem Sheikh (who was then the Accounts officer for the Gulf Group, and also had wide personal contacts with the business community from the Sub Continent) set up such one-off deals. The account statements for the early years seen by Task Force showed a fair volume of throughput activity and fund flows. However substantial part of the outflows appeared to land up in the accounts of the Gulf Group directly or indirectly.

For this and other similar obvious reason listed in the Task Force Report it became clear to the Task Force that the entire arrangement was set up by Mr. Hashem Sheikh in conjunction with the Gulf Group.

The Task Force has therefore recommended that all such activities should stop forthwith and all these 'offshore' accounts with outstanding liabilities at the year end should be consolidated in the Gulf Group's global exposure (until such time as any of the Sub Continent client(s) can come forward and take direct responsibility for any of the outstanding loan(s) and show the security they can offer and the basis of the repayment proposed).

The entire Gulf Group should be reviewed as a consolidated exposure, the tangible security assessed and adequate provision set up for potential shortfall.

On this basis the figures arrived at by the Task Force were as under:

Gulf Group

		$m
Gross Exposure:		
- Parent Co. (CIH) related	:	242.46
- Other Subsidiary Companies (not consolidated)	:	199.57
- Other off-shore loans	:	263.50
Total Exposure	:	705.53

Security:

Ships/Properties and Deposits, Government securities and other tangible assets	152.60
Net 'clean' exposure covered by BCCI's holding of 92% of CIH shares (Parent Holding Company)	552.93
Value of "networth" of CIH (92%) as per audited Balance Sheet discounted by 50% + BCC loan	433.40
Net Final Shortfall:	119.53
Proposed provisions for Gulf Group (Consolidated) for 1989	120.00

The Task Force have since met the owners of the Gulf Group (Mr. Abbas Gokal) and obtained from him the following:

(a) Acceptance of all liabilities of non consolidated/associated Gulf Group companies and

(b) Acceptances of all liabilities of all 'off shore' companies (as listed in Annexure P & Q)

(c) Personal Guarantee of Proprietors/Directors and

(d) Agreement that the security cover of 92% shares of GIH currently held by BCCI can be extended to cover items (a) and (b) above.

The Gulf Group is a US$1.0 billion asset company, as per its audited balance sheet, with operations in over 40 countries. Great care is required to handle this account. The Task Force feels that an intensive follow-through is required to restructure the activities of the entire Gulf Group and carefully monitor its operation in order to minimize any further significant loss to the Bank. For this shipping and financial experts will have to join the BCC Special Task Force set up for this purpose and their work should start forthwith.

8.00 Final Conclusion

8.01 Since

(a) All concerned accounts officers have been removed from their assignment or severely restricted in their operation/authority.

(b) Huge additional provision of $265 million over and above the banks already high provision for the year of $210 m has been set up.

(c) A major restructuring of the Capital of the bank and the related restructuring of shareholdings of CCAH, is in final stages, bringing additional fresh capital of perhaps $300m into the bank which will reinstate the Capital of bank to nearly 8% of risk asset.

(d) The operative machinery in Grand Cayman is being overhauled.

(e) No other location of BCC Group is involved and indeed have now closed their audited position for 1989.

(f) Major restructuring of the Group for the purpose of enhancing the management strength including perhaps direct participation by the Abu Dhabi investors group.

(g) Major re-organisation of the Group for the purpose of drastic cost cutting is already in the pipeline

Therefore

It is in the interest of all concerned who are involved in safe guarding the existence of BCC Group - the shareholders, the directors, the management, the auditors and finally the Regulators to 'close' this matter urgently and allow the Bank's Annual Report to be issued to the public, globally at the earliest.

Without this there is now a grave and real danger of a serious 'run' on the Bank, worldwide, resulting in an uncontrolled situation which would even close the entire Group with serious consequences to the 1.3 million customers, the $17 billion plus deposits the over $2 billion in Due to correspondent bank as well as the future of over 14,000 employees all of which will be in serious jeopardy.

Senator KERRY. Document No. 7 was a report to the directors by Price Waterhouse summarizes the problems as they had then been discovered. And this was in 1990, April 18, 1990. A year ago, all this was known within the bank and to the directors.

[The information referred to follows:]

STRICTLY PRIVATE AND CONFIDENTIAL

BCCI HOLDINGS (LUXEMBOURG) SA

REPORT TO THE DIRECTORS

18 APRIL 1990

Southwark Towers
32 London Bridge Street
London SE1 9SY

Telephone 01-407 8989
Telex 884657/8
Telegrams 01 378 0647

Price Waterhouse

18 April 1990

STRICTLY PRIVATE AND CONFIDENTIAL

The Directors
BCCI Holdings (Luxembourg) SA
39 Boulevard Royal
LUXEMBOURG

Dear Sirs

As previously reported to the Chairman and to the Audit Committee, in conducting our 1989 audit we have discovered a number of problem transactions. Detailed reports which set out our concerns have been provided to a task force set up by the bank and we have worked closely with that task force in seeking to obtain further information about the transactions and their implications for the bank. In the report attached to this letter we summarise the outstanding financial issues together with our recommendations on the courses of action which might be followed; the related control and management issues are not addressed in this report.

The issues are grouped under the following sections:

Section 1 : Uncertainty relating to major loans

Section 2 : Shareholder loans

Section 3 : Outstanding information

Section 4 : Further audit procedures

Section 5 : Estimates of funding and capital adequacy requirements

Section 6 : Proforma financial statements

These issues need to be fully addressed as a matter of the utmost urgency. They can only be resolved through a commitment of substantial financial support, the refinancing of some existing shareholdings, and the introduction of new capital. In section 5 we set out the likely funding requirement on alternative bases which indicate a minimum funded requirement of $1.8 billion, together with unfunded support for unsecured loans of about $400 million.

The Board and the major shareholders will need to examine and resolve these matters within the next few days in order to safeguard the position of the bank. We cannot sign the accounts as currently drafted.

We remain available to assist you in bringing these matters to a conclusion and, when the future of the bank has been secured, in addressing the control and management implications.

Yours faithfully

PRICE WATERHOUSE

SECTION 1 : UNCERTAINTY RELATING TO MAJOR LOANS

Audit enquiries to date have given rise to concerns about the ultimate recoverability of a number of major loan accounts which despite the considerable efforts of the task force remain unresolved at this time. These loans fall into five categories, as discussed below:

Gulf Group

Notwithstanding management assurances to the contrary, the recorded Gulf Group exposure increased from $350 million in 1988 to $400 million at 31 December 1989. In addition, following the substantial increase in exposure to offshore companies and our concerns about the operation and recoverability of these accounts, the task force have concluded that loans to 71 separate offshore companies totalling $300 million at 31 December 1989 should be evaluated as part of the total Gulf Group exposure. The Gokals, the principal shareholders of Gulf International Holdings ("GIH") have now accepted responsibility for these accounts so that the total Gulf exposure is now $700 million. They have indicated their agreement to pledge the shares in GIH against the total exposure, even though much of the lending is to non GIH companies.

The bank holds tangible security, mainly in the form of mortgages over vessels, which is evaluated at $150 million. The bank also holds bearer shares in GIH, representing 92% of the issued share capital, but it is not known in what capacity these shares are held, or how they could be realised. Even if these matters could be clarified there is considerable uncertainty as to the underlying value of the shares as the bank has inadequate information about the financial position of GIH and related entities and of any prior charges over the assets.

The task force has acknowledged that without considerable further information about the current financial position of the Gulf Group it is impossible to assess the recoverability of the unsecured exposure of $550 million but are reluctant to seek additional information at this time as it may prejudice the whole recovery process. The draft accounts of BCCI include a provision of $120 million against the unsecured exposure leaving $430 million unprovided, although the task force accepts that the further enquiries may well result in additional provisions being required.

In view of the history and conduct of this account, we are unable to judge the recoverability of the unsecured exposure and whether the provision of $120 million is adequate.

Because of this uncertainty it will not be possible for us to issue an unqualified audit report unless the major shareholders agree to provide financial support so that any additional provision deemed necessary following a detailed assessment of recoverability will be matched by further increases in capital. Appropriate disclosure of such an arrangement would be required in the 1989 financial statements.

CCAH

Loans secured on CCAH shares have increased to $870 million compared to $702 million a year ago despite management assurances that the exposure would reduce during 1989. Interest for 1989 has not been serviced and additional unsupported drawdowns were debited to customer accounts during the year.

Goldman Sachs have been retained by CCAH to advise on the realisation of the investment in First American Bank. We have suggested that Goldman Sachs be asked to provide an indication of the likely sales proceeds and this should be used for purposes of valuation of the shares held as security for CCAH loans. In the absence of this valuation we have made our own estimates which indicate that there is likely to be a shortfall of the order of $200 million which would need to be provided in 1989.

We are informed that the major shareholders are negotiating to take over at book amount the loans to the Rulers of Fujeirah and Ajman. If these loans are taken over the potential loss would be reduced to some $132 million, which will need to be provided in the 1989 financial statements.

In addition, we will require evidence that no loss will fall on the bank in respect of the guarantee of $175 million provided by the bank to Mashriq Holdings (Ruler of Fujeirah) in respect of CCAH shares.

Government of Sharjah

The total exposure amounts to $192 million of which $160 million relates to a loan for a steam power plant which was rescheduled in 1987 for repayment over five years. The instalments due in 1989 have not been met and a further rescheduling of the loan is proposed.

Because of the uncertainty over the recoverability of these loans it will not be possible for us to issue an unqualified audit report unless:

1 interest for 1989 of $20 million is reversed and a provision of the order of $40 million is made; or

2 the major shareholders agree to provide financial support so that any loss on realisation will be matched by a corresponding increase in capital. This will require appropriate disclosure in the 1989 financial statements.

The audit committee have recommended that the first option be adopted and we have taken account of this in assessing the funding requirements in Section 5.

Country Risk

The College of Banking Supervisors have insisted that the bank provide for cross border exposure to troubled debtor countries in accordance with the Bank of England matrix. During the year the bank increased its country risk provision by $75 million to $175 million by application of the Bank of England guidelines in almost all cases, after taking account of special relationships in Zambia, Iraq and Sudan.

The provision against Nigerian risk has been increased to 46% although this is somewhat short of the level as scored by us, other banks, independent agencies and the Bank of England. We believe that a provision of 65% is appropriate although we are aware that some banks have applied up to 75%. A further provision of $50 million is required to increase the provision to 65%. Failure to do so is unlikely to be acceptable to the College.

Contingency Provisions

Our enquiries as confirmed by the task force have indicated that certain accounting transactions principally booked in Cayman and other offshore centres have been either false or deceitful. Whilst we and the task force have sought to identify all problem transactions it is impossible, without an exhaustive inquiry, to know whether this has been achieved.

For the purpose of the 1989 financial statements we believe that it would be appropriate to set up a contingency provision to cover any ~~such transactions~~ uncertainties.

As previously reported there are examples of accounting practices being adopted which are not particularly prudent. We do not propose to pursue these further in the context of the overall results for the year. The existence of such matters reinforces the need for a reasonable contingency provision.

Whilst it is difficult to quantify the required level we recommend that a minimum amount of $50 million should be provided.

SECTION 2: SHAREHOLDER LOANS

There have been a number of transactions in BCCI shares including the 1989 rights issue, which appear to have been financed either directly or indirectly by the bank or ICIC. Although ICIC entities are organised as separate legal bodies they are in substance under the control of BCCI management. We have expressed our concern previously about the dependence of ICIC on loans secured on BCCI shares and the extent to which it can be regarded as independent of the BCCI group. We consider that any refinancing of BCCI shares needs to take into account the ICIC exposures noted in the following paragraphs. A proforma balance sheet of ICIC at 30 June 1989 is included as Appendix 3.

(1) Mahfouz Family

Due from NCB 250
Loan 146
396

At 31 December 1989 BCCI had exposure to Mahfouz and NCB of $396 million which we now understand will be repaid out of the proceeds of the acquisition by ADIA of his 20% shareholding in BCCI at $40 per share. We further understand that a loan of $124 million in the name of Sheikh Mohammed Bin Rashid Al Maktoum will also be repaid through the same transaction.

We will need to see evidence of repayments of these loans before we can conclude on the recoverability of these amounts.

(2) Pharaon Brothers

Despite repeated assurances by management to the contrary and confirmations from the borrowers' concerned we now understand that BCCI shares recorded in the names of the Pharaon brothers may have been owned by BCCI and ICIC. We are informed that these shares, representing 11.70% of BCCI, are to be acquired by ADIA at $40 per share and the proceeds of $349 million used to repay unsecured loans by BCCI and ICIC totalling $205 million. We have not yet ascertained how the balance of the proceeds of $144 million will be utilised.

In the light of this transaction we will need full disclosure from the Board about the relationship of the bank with the Pharaons and the beneficial ownership of companies financed by BCCI/ICIC where Ghaith Pharaon is recorded as being a shareholder.

(3) Hammoud, Khalil and Others

We are informed that ADIA will probably acquire further shares including those held by Hammoud and Khalil at some future date, which would enable outstanding loans to be repaid.

For the following loan amounts there seem to be few alternative sources of repayment except the realisation of BCCI shares and in the absence of a firm commitment from ADIA to acquire these shares we believe that provision or set off against shareholders' funds will be necessary.

	Shareholding		$ million	
			Related loan exposure	
	Percentage held %	Share @ $40 per share	BCCI	ICIC
MM Hammoud	3.55	106	-	61
AR Khalil	3.08	92	30	-
ICIC Staff Benefit Fund	2.94	87	-	82
Faisal Fulaij	1.53	46	-	28
Prince Turki	0.97	30	10	13
Shaf Corporation	0.70	21	21	-
Badar Al Rawas	0.55	16	18	-
AA Bugshan	0.41	12	13	-
	13.73	410	92	184

SECTION 3 : OUTSTANDING INFORMATION

Information on the following is required before we can conclude our audit. Much of this information was requested some time ago and is, we understand, in the process of being gathered.

(1) Loan reviews

Loan reviews on the following are incomplete and further provisions may be required once we have evaluated the outstanding information listed below:

Sheikh Hamdan (Deceased)	-	We have not yet seen evidence from the estate of HE Sheikh Hamdan that loans totalling $109 million will be repaid out of the estate.
Sheikh Kamal Adham	-	net worth statement awaited; task force estimate of $30 million provision not reflected in draft accounts or in schedule of proposed adjustments.
GR Pharaon	-	1989 financial statements for Independence Bank to support valuation of security.

(2) Task force reports

Reports from the task force on their reviews. When received we will need to evaluate the extent that their reports address the concerns raised by us in the detailed briefing reports provided to them and the extent to which further investigation is necessary.

(3) Confirmation of customer balances

We have not yet received confirmation of the loans in the names of Mahfouz, Maktoum, Khalil and some of the other shareholders listed in Section 2. These will require confirmation unless they are taken over under the refinancing arrangements. In addition we shall require the following confirmations of balances which are particularly important in the absence of written instructions from the customers concerned:

Sheikh Kamal Adham, Sheikh Abdul Aziz Ibrahim, Sheikh Walid bin Ibrahim, Sheikh Rossais.

(4) BCP

Confirmation from senior BCP management that customer loan balances over $5 million are unrelated to other borrowers of BCCI.

(5) KIFCO

We require senior management to provide balance sheet analyses, in the absence of PW access to this entity which has been denied. Preliminary information indicates that further provisions may be required against exposures to customers common to the BCCI Group.

We also require reconciliation between placements shown by BCCI with KIFCO and amounts recorded in KIFCO's financial statements provided to us by their auditors.

(6) Capital Notes

Details of subscription and source of funds for December 1989 issue of $81 million.

(7) US legal and regulatory issues

Evaluation of US regulatory position following receipt of representation letters from US law firms and finalisation of disclosure in financial statements.

SECTION 4 : FURTHER AUDIT PROCEDURES

The following audit procedures need to be completed before we can finalise our report on the 1989 financial statements.

(1) Evaluation of the report from the task force and other outstanding information referred to in Section 3.

(2) Subsequent events review

- Review sources of and accounting for additional capital provided by shareholders and implications for future results and operations.

- Discussion of current results with management and outlook for 1990.

- Review of movements on major loan and deposit accounts in BCCI and ICIC and new loan drawdowns.

(3) Assurances from the major shareholders about continued financial support.

(4) Assurances from the Board and Senior Management about the financial position of the group and the fair presentation of the accounts. In particular that they have made due and proper enquiry that:

- they are fully satisfied that the extent of false recording of transactions has now been identified and disclosed in written reports provided to them and us.

- they are not aware of any other accounts, transactions or material agreements that are not fairly described or properly recorded in the financial and accounting records.

- all other financial and accounting records and relevant data have been made available to us.

- all loan exposures and accrued unpaid income thereon will prove fully collectable in the normal course of business and that the provision for loan losses totalling [$] is sufficient to cover any losses which may arise on realisation of the loan portfolio.

(5) Confirmation from the College of Banking Supervisors that the banking licences in the principal countries of operation will continue for the foreseeable future.

SECTION 5 : ESTIMATES OF FUNDING AND CAPITAL ADEQUACY REQUIREMENTS

We set out below our estimates of the requirement for:

(1) the proposed refinancing of shares in BCCI by ADIA, and;

(2) the assumption of some of the loans secured on CCAH shares, and;

(3) the additional capital required to restore the capital/risk adjusted assets ratio to 8%, and;

(4) the contingent liability in respect of loan commitments.

The level of funding required will vary depending upon the level of BCCI shares to be taken up. For illustration purposes we have provided estimates on the following bases:

Alternative 1 : the acquisition of the 20% Mahfouz shareholding.

Alternative 2 : the acquisition of the Mahfouz and other shareholdings totalling 45.4%.

	FUNDING REQUIREMENT	Percentage shareholding to be acquired	$ million ALTERNATIVE 1	$ million ALTERNATIVE 2	
1	Refinancing of BCCI Shares				
	Stage 1: Mahfouz	20.0	596	596	596
	Stage 2: Pharaon brothers	11.7		349	
	Stage 3: Hammoud, Khalil and others	13.7		410	
		45.4%	596	1,355	
2	Assumption of CCAH Loans				
	Fujeirah and Ajman		294	294	
3	New Capital (Appendix 1) ——→		897	420	400
	FUNDING REQUIRED		1,787	2,069	996
	UNFUNDED REQUIREMENT				
	Contingent liability for commitment to fund shortfall on Gulf Group		430	430	

On this basis Cap. Ratio is 8%

SECTION 6 : PROFORMA FINANCIAL STATEMENTS

Set out below are the proforma financial statements at 31 December 1989 after giving effect to the adjustments proposed and additional capital required under the alternative funding requirements referred to in Section 5.

PROFORMA BALANCE SHEET

			$million
	PER DRAFT ACCOUNTS	ALTERNATIVE 1	ALTERNATIVE 2
Cash and other liquid assets, including new capital to be paid in	12,376	13,273	12,796
Loans and advances (Appendix 2)	10,375	9,861	10,083
Other assets	908	908	908
	23,659	24,042	23,787
Capital Fund (Appendix 2)	1,215	1,339	1,343
Deposits and other liabilities	22,444	22,444	22,444
Provision against ICIC loans	-	259	-
	23,659	24,042	23,787

PROFORMA PROFIT AND LOSS ACCOUNT

	$ million			
	PER DRAFT ACCOUNTS	ALTERNATIVE 1	ALTERNATIVE 2	
Profit before loan loss provisions	224	204	204	224
Loan loss provision Per draft accounts	(460)	(460)	(460)	(500)
Adjustments set out in Section 1				
CCAH		(132)	(132)	
Government of Sharjah		(40)	(40)	
Country Risk		(50)	(50)	
Contingency		(50)	(50)	
Adjustments set out in Section 2				
Shareholders loans				
- BCCI		(222)		
- ICIC		(259)		
	(460)	(1,213)	(732)	(276)
Tax, extraordinary items and outside shareholders' interests	(122)	(122)	(122)	(122)
Loss attributable to shareholders	(358)	(1,131)	(650)	(398)

APPENDIX 1
(1 of 4)

CALCULATION OF NEW CAPITAL REQUIREMENTS

	$ million	
	ALTERNATIVE 1	ALTERNATIVE 2
Risk adjusted assets (Page 2)	13,976	14,020
Capital ratio, at 8%	1,118	1,122
Less: adjusted capital, for capital adequacy purposes (Page 3)	221	702
New capital required	897	420

APPENDIX 1
(2 of 4)

CALCULATION OF RISK ADJUSTED ASSETS

	$ million	
	ALTERNATIVE 1	ALTERNATIVE 2
Estimates based on draft accounts	15,000	15,000
Adjustments		
CCAH - Loans taken over	(294)	(294)
- Provision for shortfall	(132)	(132)
Government of Sharjah	(60)	(60)
Country risk	(50)	(50)
Realisation of or provision for shareholder loans		
Mahfouz	(146)	(146)
Maktoum	(124)	(124)
Pharoan brothers	(130)	(130)
Khalil and others	(92)	(92)
Placement of proceeds from realisation of shareholder loans with banks	54	98
Contingency provision	(50)	(50)
	(1024)	(980)
Risk adjusted assets	13,976	14,020

APPENDIX 1
(3 of 4)

CALCULATION OF ADJUSTED CAPITAL FOR CAPITAL ADEQUACY PURPOSES

	$ million	
	ALTERNATIVE 1	ALTERNATIVE 2
TOTAL CAPITAL FUND AS SHOWN BY DRAFT ACCOUNTS	1,215	1,215
Adjustments required as set out in Sections 1 and 2		
1 Shortfall on CCAH shares not taken over by ADIA (576/870 X $200M)	(132)	(132)
2 Government of Sharjah loans	(60)	(60)
3 Country risk - Nigeria	(50)	(50)
4 Contingency provisions	(50)	(50)
5 Shareholder loans		
Pharaon brothers	(205)	
Hammoud, Khalil and others	(276)	
	(773)	(292)
ADJUSTED CAPITAL FUND	442	923
Adjustments required for capital adequacy purposes		
Amortisation of subordinated capital notes (Page 4)	(256)	(256)
Goodwill	(50)	(50)
General and contingency provision	100	100
Investment in unconsolidated subsidiaries and associates	(15)	(15)
ADJUSTED CAPITAL FOR CAPITAL ADEQUACY PURPOSES	221	702

VALUATION OF SUBORDINATED CAPITAL NOTES
FOR CAPITAL ADEQUACY PURPOSES

		Maturity Date	Amount shown in draft accounts	$million Valuation on basis the notes are not converted
Notes convertible into BCCI shares		1991	330	99
Capital notes series	C	1990	1	-
	F	1990	5	1
	K	1992	50	30
	L	1994	25	25
	M	1995	25	25
	N	1994	81	81
			517	261

AMORTISATION OF SUBORDINATED CAPITAL NOTES	256

APPENDIX 2

ANALYSES OF CAPITAL FUND AND LOANS AND ADVANCES INCLUDED IN PROFORMA BALANCE SHEET

	$ million	
	ALTERNATIVE 1	ALTERNATIVE 2
Capital fund - per draft accounts	1,215	1,215
Adjustments set out in Sections 1 and 2	(773)	(292)
New capital, as set out in Appendix 1	897	420
	1,339	1,343
Loans and advances - per draft accounts	10,375	10,375
CCAH shortfall	(132)	(132)
Government of Sharjah	(60)	(60)
Country risk provision	(50)	(50)
Shareholder exposure	(222)	-
Contingency provision	(50)	(50)
	(514)	(292)
	9,861	10,083

APPENDIX 3

PROFORMA BALANCE SHEET OF ICIC AT 30 JUNE 1989

We set out below the combined proforma balance sheet of ICIC Holdings and ICIC Overseas based on draft accounts at 30 June 1989:

	$ million
ASSETS	
Loans secured on BCCI shares	
Wabel Pharaon	75
Hammoud and others	184
ICIC Foundation	78
Loan to Prince International Holdings	38
Other loans, net of provisions	107
	482
Cash with BCCI	140
Other assets	36
	658
SHAREHOLDERS' EQUITY AND LIABILITIES	
Deposits and other liabilities	516
Shareholders' equity	82
Preference shares	15
Subordinated loan	45
	658

Senator KERRY. And document No. 8 is a letter to the Government of Abu Dhabi to inform the shareholders about the problem. This was a letter that came from Price Waterhouse as a consequence of your joint effort.

[The information referred to follows:]

Southwark Towers
32 London Bridge Street
London SE1 9SY

Telephone 01 407 8989
Telex 884657 8
Telecopier 01-378 0647

38

Price Waterhouse

As from 6 May 1990
our new Telephone Number
will be:
071-939 3000
Telecopier **071-378 0647**

25 April 1990

HE Mohammad Habroush Al Suwaidi
Chairman
Finance Department
Government of Abu Dhabi
PO Box 246
Abu Dhabi
UAE

Dear Sir,

BCCI

We are advised that you are in the process of finalising the acquisition of shares in BCCI Holdings (Luxembourg) SA ("BCCI") such that the Government of Abu Dhabi and related institutions will hold 77% of the share capital of that company. We understand that once the acquisition is completed you will take steps to reorganise and restructure BCCI, and the advances referred to in this letter.

At a meeting of the Directors of BCCI in Luxembourg on 20 April 1990 we reviewed the status of our audit and the uncertainties surrounding the 1989 Financial Statements. (These matters had been set out in our report to directors issued on 18 April.) We advised the directors that there remain uncertainties over the recoverability of a number of major loans, in particular Gulf Group, CCAH and shareholder loans, and that further significant provisions in excess of the amount of $500 million already provided in 1989 were required in the absence of a commitment from the Government of Abu Dhabi that any losses arising from realisation of these loans would not impair the Group's capital base.

Your representative, HE G Al Mazrui, has confirmed to us that you are fully aware of the nature and magnitude of the uncertainties and are prepared to provide the necessary financial support in the event that losses arise from realisation of these loans.

In this letter, as requested by your representative, we set out our comments on the uncertainties. We do not attempt to provide a balanced picture of the strengths and weaknesses of the group as a whole; to do so would involve the writing of a far more comprehensive document which would take some time to complete.

Gulf Group and related companies

The recorded loans to companies controlled by the Gulf Group at 31 December 1989 amounted to approximately $400 million, in addition to which there was unfunded exposure of about $20 million. The Gokal family and the Gulf Group have also accepted responsibility for loans to a further 71 offshore companies amounting to $300 million. We estimate that total loans to Gulf Group and related companies have increased by a further $50 million since the year end primarily by the application of interest, so that the aggregate exposure to Gulf is now in excess of $750 million.

The uncertainties surrounding this lending are summarised below.

- Without exhaustive further investigation it cannot be determined that this is the full extent of Gulf- related lending.

- Over the past few years Gulf has had difficulty in servicing loans which is the underlying reason why the reported loan exposure has continued to increase. Recently obtained information about the offshore accounts gives rise to concern that the servicing of debt in prior years may have been achieved by additional borrowing.

- The acceptance of responsibility for further loans of $300 million, many of which are not performing, gives rise to serious concerns about the purpose and recoverability of those loans as well as the reported Gulf exposure.

- The tangible security for the loans, comprising ship mortgages and bonds and cash has been assessed at $150 million. However, a critical review of legal documentation will be required to confirm enforceability. Gulf International Holdings ("GIH"), the parent company of the Gulf Group, and the Gokal family have provided guarantees in respect of the borrowings. In the absence of any knowledge as to the personal wealth of the Gokals we have assumed that the only asset of value to support their guarantees are their shares in GIH pledged as security.

- There must be some doubt to the value to be placed on GIH and whether it is a realistic to assume that a third party would take over a diverse family run group operating in offshore centres and where the bank has little financial information or knowledge of the group or its constituent companies.

- The financial information available to us is limited to the audited accounts of GIH group at 31 March 1989 which show net assets of $416 million. These accounts show total borrowings of $454 million but much of this is from other lenders as we believe that only $200 million of the BCCI exposures is to companies consolidated with GIH and included in these accounts.

- The principal asset of GIH is shown as accounts receivable including loans to related companies. The uncertain nature of the relationship between the consolidated and unconsolidated companies gives rise to considerable concern.

CCAH

The loans to CCAH and loans secured on CCAH shares have increased to $870 million at 31 December 1989 compared with $702 million the previous year. The increase arises from the roll up of interest, which has not been serviced, and additional unsupported drawdowns debited to customer accounts.

Uncertainties surrounding these loans are

- the implications for the bank of the refusal by two customers (the Rulers of Fujeriah and Ajman) to accept responsibility for loans totalling $270 million and in the circumstances whether any loss will arise from realisation of these loans and on an associated guarantee liability of $175 million.

- the difficulty in ascertaining why shares in CCAH held by the Ruler of Fujeriah and others have not been pledged in full to BCCI.

- the valuation of the security of shares in First American Bank. Goldman Sachs have been retained by CCAH to advise on realisation and we have suggested that they be asked to provide an indication of the likely sales proceeds which could be used for purposes of valuation. In the absence of this valuation we have made our own estimate based on information provided to CCAH by Goldman Sachs which indicates that there is likely to be a shortfall of the order of $200 million using a multiple of 2.1 times net tangible assets for valuation of the shares. In order to cover the loans the shares would need to be acquired at 2.5 times net book value.

25 April 1990
HE Mohammad Habroush Al Suwaidi
Page 4

Shareholder loans

At 31 December 1989 BCCI had exposure to a number of shareholders, the recoverability of which would seem to be dependent on realisation of their shares in BCCI at $40 per share. Our concerns about the level of exposures and the manner in which they have been recorded have been reported to the Directors. We understand that you intend to acquire substantial shareholdings from existing shareholders and that unsecured loans recorded in their names will be repaid. We have identified the following loans to shareholders where we have concerns about recoverability in the event that they are not acquired at $40 per share:

			$ million
	Shareholding		Unsecured
	Percentage held %	Shares @ $40 per share	loan exposure
Mahfouz family	20.00	596	* 146
Related loan exposure in the name of Sheikh Mohammed			124
Sheikh Kamal Adham	2.94	88	115
AR Khalil	3.08	92	30
Prince Turki	0.97	30	10
Shaf Corporation	0.70	21	21
Badar Al-Rawas	0.55	16	18
AA Bugshan	0.41	12	13
	28.65	855	477

(* excludes $250 million placements with NCB, controlled by the Mahfouz family).

There are loans to BCCI shareholders by ICIC of $269 million where recoverability would also seem to be dependent on realisation of BCCI shares at $40 per share. As ICIC entities are in substance under the control of BCCI management any refinancing of BCCI shares also needs to take into account ICIC exposures to BCCI.

Outlook for 1990 and beyond

You have indicated your intention to reorganise and restructure BCCI to ensure its continued development. Although we are not aware of your specific plans we believe that there are likely to be significant costs associated with any such reorganisation which will need to be taken into account in future years. This would include:

(1) additional provisions for the loans referred to above when the uncertainties about their outcome can be quantified. In our opinion these could be of the order of $500 million.

(2) the loss of income from significantly reduced charges to Gulf and CCAH related lending. In 1989 such income exceeded $240 million.

(3) one-time costs associated with reorganisation and restructuring including substantial reduction in staff numbers and closure of unprofitable operations.

The accounts to be approved by the board do not include provision to cover these uncertainties on the basis that financial support would be available in the event that losses arising from the realisation of these loans and the necessary costs associated with the reorganisation and restructuring of the group could impair the capital base.

We should be pleased to provide whatever assistance you may require in the resolution of the matters discussed above.

Yours faithfully,

Senator KERRY. And finally, document No. 9 is a letter to the regulators in Luxembourg which was a summation of the same problem that had been summarized to the directors and summarized in the Price Waterhouse report.

[The information referred to follows:]

Southwark Towers
32 London Bridge Street
London SE1 9SY

Telephone: 01 407 8989
Telex: 884657-8
Telecopier: 01-378 0647

39

Price Waterhouse

As from 6 May 1990
our new Telephone Number
will be:
071-939 3000
Telecopier **071-378 0647**

27 April 1990

Mr A Philippe
Institute Monetaire Luxembourgeois
63 Avenue de la Liberte
2983 Luxembourg

Dear Mr Philippe,

BCCI

As requested I enclose 1989 financial statements for the following BCCI entities which we have initialled for the purposes of identification.

BCCI Holdings Luxembourg SA - consolidated financial statements
BCCI SA - in accordance with IAS together with accounts in compliance with Luxembourg law and a reconciliation between the two
BCCI (Overseas)

These drafts are to be presented to the board on Monday and we are prepared to sign the audit report as drafted subject only to the following:

1) Completion of subsequent events review, including review of share register and sources of additional capital provided by shareholders.

2) Acknowledgement by the shareholders' representative that our letter of 25 April has been received. A copy of this letter is enclosed for your records.

3) Confirmation that the shareholders' loans referred to in our letter are to be repaid

4) Representations by management and the directors about the basis of preparation of the financial statements.

5) Board approval of the draft financial statements. There is a proposal to increase the provisions by a further $100 million to $600 million; this needs to be confirmed with the shareholders' representative and has not been reflected in the enclosed drafts.

I expect that these matters should be resolved on Monday. Please let me know if you have any comments on the drafts.

Yours sincerely,

Chris Cowan

CI Cowan

CIC/hh

encs.

cc: Mr J Beverly - Bank of England
Mr Z Iqbal - BCCI

Senator KERRY. Now those are the nine operative documents, some of which we will be referring to in the course of your testimony here this morning.

I would like to come back, if we can, let me just ask you, Mr. Rahman, have I correctly summarized each of those documents?

Mr. RAHMAN. Yes, you have.

Senator KERRY. And those are documents which you have provided this committee?

Mr. RAHMAN. Well, these were provided copies, one to the lawyers and one to Fed and one to the district attorney's office. This appears to be a fourth copy.

Senator KERRY. But that is a copy that you recognize to be a true copy of the documents that you have seen previously?

Mr. RAHMAN. Yes, I have seen these previously.

Senator KERRY. And you recognize those to be the documents as I have described them?

Mr. RAHMAN. Yes.

Senator KERRY. OK. Now if we could go back again, just tracing the history because I think it is very helpful in understanding the development of this bank and how it came to be known as it is today and to be in this problem.

You were telling us that in 1972 you were not yet associated with BCCI. You had been working as a professional, as a technocrat, as you said, in Pakistan, East Pakistan. And you were summoned, I believe, to a meeting with a Mr. Abedi. Is that correct?

Mr. RAHMAN. Well, as I said, I joined United Bank and I was with United Bank from 1966 to 1974. In 1972 United Bank was nationalized along with all of the other banks after the Bhutto government came. And at that time most of the senior executives of the bank were removed by the government and government nominees were sent to run the banks.

I was requested to continue in United Bank by the new government nominated president. And indeed, he gave me a very long lecture that we have seen through your life file and your father was Chief Justice and you should be in government sector. Why are you working in this one-family business, et cetera and so on and so forth. And now is your chance to do something worthwhile.

So he put me on a committee to restructure banking in Pakistan and merge the various banks into a lesser number of banks. And I worked on that committee for nearly 1 year. During that time Mr. Abedi had been put under house arrest, detention in his house.

Senator KERRY. What was he under house arrest for?

Mr. RAHMAN. Well, the government felt that some of the executives of the banking industry needed to be investigated.

It would make, of course, a particular case for the government to have taken over the bank without compensation.

Senator KERRY. So the banks were nationalized?

Mr. RAHMAN. Yes.

Senator KERRY. They took over the banks?

Mr. RAHMAN. Yes.

Senator KERRY. Mr. Abedi, who had been the head of one of these banks, was put under house arrest?

Mr. RAHMAN. Right.

So he was making efforts to meet me. And I was a bit hesitant because I am from East Pakistan and I know that the Pakistan, East Pakistan situation was also very raw because of the Bangladesh matter. So I didn't want to breach any law of the country. But having avoided meeting him for several months, I finally felt that out of old loyalty and knowing him for so many years, I should go and see him. So that's why I went to his house. That's why I went to his house on a Sunday.

And during this meeting——

Senator KERRY. This was while he was under house arrest?

Mr. RAHMAN. Yes, I had to go to his house.

Senator KERRY. You registered with the police and the government authorities?

Mr. RAHMAN. Yes, the police were around the house and I had to register the car, the purpose of the visit. I had no documents, so that was all right.

And he explained to me at that meeting for the first time that he very much wanted to get together with some people like me and start a world bank, a global bank for the Third World.

Obviously, he had been sitting and thinking about it on his own for some time. He explained that up to that stage in the early 1970's there were mostly national banks and savings banks. The few banks which are international are indeed the colonial banks from Britain, France, Germany, and lately from America. So they were normally not international, they were really national banks, big national banks of countries which were international in network only.

So he felt that if a genuinely global bank would be started bridging all the Third World countries and also bridging the first world, then there could be a unique banking structure which could be very, very useful socially and also very profitable.

So I was a bit taken aback that at this stage he should think such big dreams. But he did. He is that sort of person. And I told him that, of course, if it ever materializes I would certainly like to be a part of it. And he said, well, it's very close to materializing because Sheik Zayed of Abu Dhabi has assured him that he will back such an organization.

So it was in this way that in November 1972 BCCI was born. It was born in a very small size, $2.5 million capital.

Senator KERRY. $2.5 million capital?

Mr. RAHMAN. Yes, that's all.

And hardly $100 million in assets all together.

So it started with a four-country presence.

Senator KERRY. What countries were those?

Mr. RAHMAN. The head office of that bank was put in Luxembourg. It had branches in London and Abu Dhabi and Lebanon. So it started in a very humble way.

And in this $2.5 million, Bank of America took 30 percent share. So quite rightly, Sheik Zayed had wanted an international bank to assist in this process. And that is how Bank America came to be a partner in this project with 30 percent shares.

I joined in early 1974 when I finished with the assignment, government assignment of restructuring banks in Pakistan. And I went straight to Abu Dhabi. And I found that in fact considering

the very big bank I was running and the very good lifestyle I had in Pakistan, this bank had nothing. They had a very tiny office, no accommodation, so we all had to share, mess-type flats, and we literally had to, in those days there were not even footpaths in Abu Dhabi. There was just sand and little tarmac roads and a few buildings.

So with very, very little pay I plunged into the bank and I became, again, general manager for finance from day 1.

In this bank, Mr. Abedi explained that the founder group of executives and members should also be shareholders of this bank. And one day we may hold up to 30 percent or 40 percent of the bank. Now, considering at that time it had no value or it was too small, it didn't mean much to us. But at least it gave us something to work for ourselves.

He said that after this abrupt nationalization when we had lost everything, I don't want to face this and you shouldn't face this ever again.

Senator KERRY. Were you given a contract?

Mr. RAHMAN. No.

Senator KERRY. Were you given actual shares?

Mr. RAHMAN. No, only verbal assurance.

Senator KERRY. And you were satisfied with that?

Mr. RAHMAN. Yes, because we just sort of worked, as he said, we were like a family who was starting a family business. And we had a share in that bank.

And so we all got into the job literally without contracts or without assurances.

Senator KERRY. You say, we all. How many people were involved then?

Mr. RAHMAN. I think at maximum at the senior level of about five people.

Senator KERRY. And who were the five people?

Mr. RAHMAN. Mr. Abedi himself, Mr. Naqvi, myself, Mr. Imtiaz Ahmed, I-m-t-i-a-z, A-h-m-e-d, and Mr. Anis, who has since died. That's about the senior level. And Mr. Shafi, S-h-a-f-i, he was a senior member.

The others were medium-level executives, including those who are now in charge like Mr. Zafar Chaudry and Mr. Azizulla Chaudhry and these people. So a maximum of about 50 to 100 people were involved in the whole bank from the highest to the lowest level. So we did believe that we would have a share in the bank also.

Of course, we had no real dream how big this bank would be and where it would go because it was all theoretical.

At that time, soon after formation of the bank, it started as BCCI S.A. which was the Luxembourg Bank, but within a couple of years, Mr. Abedi decided to restructure it, and the holding company was produced. It was called BCCI Holdings. And the bank underneath it, BCC S.A. was split into two parts, one bank was left with its head office in Luxembourg called BCCI S.A., and another bank was created with its head office in Grand Cayman. The BCC S.A. bank was mostly with European and Middle East locations, and BCC Overseas Bank was mostly Third World countries.

Senator KERRY. OK, so let us just understand this as we go along. In 1974 or 1975?

Mr. RAHMAN. In 1975.

Senator KERRY. In 1975, you decided, Mr. Abedi decided to restructure the bank.

Mr. RAHMAN. Yes.

Senator KERRY. A holding company was created.

Mr. RAHMAN. Yes, sir.

Senator KERRY. The holding company was BCCI Holdings.

Mr. RAHMAN. Right.

Senator KERRY. Underneath the holding company, which was based in Luxembourg?

Mr. RAHMAN. Yes.

Senator KERRY. Underneath the holding company based in Luxembourg were created two banking entities. One of them, the overseas banking entity based in Grand Cayman.

Mr. RAHMAN. Yes.

Senator KERRY. For a Third World, so to speak.

Mr. RAHMAN. Yes.

Senator KERRY. And the other was the BCCI S.A.

Mr. RAHMAN. Yes.

Senator KERRY. Based in Luxembourg.

Mr. RAHMAN. Yes.

Senator KERRY. And those were the only entities.

Mr. RAHMAN. Those were the only entities.

Senator KERRY. But quickly another entity was created called ICIC, was it not?

Mr. RAHMAN. Yes. Around about the same time, 1975–76, in order to hold the shares of the founder group and other senior executives, an entity was set up called ICIC Holdings.

Senator KERRY. What did that stand for?

Mr. RAHMAN. Investment Credit and Commerce, something like that. I didn't know the full details. ICIC, everybody refers to it as ICIC.

That was set up in Grand Cayman with the apparent purpose of holding the shares for the founder group.

Senator KERRY. Now, the apparent purpose, you were told by Mr. Abedi was that ICIC would be the pot of gold, so to speak, for all of you.

Mr. RAHMAN. All the founder members, and later on for the general staff, also.

Senator KERRY. Did you actually receive shares with respect to ICIC?

Mr. RAHMAN. No, sir.

Senator KERRY. You were one of the five founding members of BCC, correct?

Mr. RAHMAN. Yes.

Senator KERRY. Were you made a trustee of ICIC?

Mr. RAHMAN. No, indeed, this, in retrospective, is very surprising, but Mr. Abedi decides who will be in what position. I mean he had that sort of a personality and that sort of authority. So he, rightly or wrongly, selected all my other colleagues, except myself, as a trustee and as directors of the ICIC group of companies.

Senator KERRY. Which colleagues were those at that point in time?

Mr. RAHMAN. There were about seven all together who were there. Mr. Naqvi was there. Mr. Imtiaz Ahmed was there. Mr. Anis and Mr. Sodiq Ali, who has also died since then, and Mr. Saleem Siddiqui who came after me. And Mr. Ameer Siddiki, also, who came after me. Mr. Iqbal Rizvi who came after me. So they were the senior-most executives of the bank who were holding divisional head positions. The organization of the bank was very unique in the sense that we had Mr. Abedi as the President who had supreme authorities and rights. For all external matters, he handled affairs which was nonbanking.

Senator KERRY. Now, when you say external matters?

Mr. RAHMAN. In the sense of going to countries, meeting government people, which is not related to the bank's operation, as such. So he was the PR and the creator of relationships.

Senator KERRY. Did he also manage the relationship with respect to the secret purchase of banks in the United States?

Mr. RAHMAN. Yes, sir.

Senator KERRY. He did?

Mr. RAHMAN. Yes, sir.

Senator KERRY. And who else was involved with him in the management of that U.S. relationship?

Mr. RAHMAN. I think the maximum, two or three other executives, Mr. Naqvi would be involved, and for a small period, Mr. Kemal Shoaib, S-h-o-a-i-b, Mr. Shoaib, and Mr. Rizvi, Mr. Dildar Rizvi, R-i-z-v-i.

Senator KERRY. Is anybody else involved to your knowledge?

Mr. RAHMAN. Not to my knowledge. I mean it was kept as a very isolated activity, not in the mainstream of the bank at all. So we were not——

Senator KERRY. You were not privy to it.

Mr. RAHMAN. Not privy to this.

Senator KERRY. But you knew, did you not, just to jump ahead for a moment, but you knew that there was a relationship in the United States.

Mr. RAHMAN. In the sense that when we had conferences of BCC in various countries, delegates from National Bank of Georgia and delegates from First America used to come to those conferences.

Senator KERRY. What do you mean by delegates?

Mr. RAHMAN. Banking officials from those organizations.

Senator KERRY. Can you be more specific?

Mr. RAHMAN. Well, from First America, both Mr. Clifford, Clark Clifford, and Mr. Altman, along with Mr. K.K. Elley, and one or two——

Senator KERRY. Along with what? I am sorry.

Mr. RAHMAN [continuing]. Elley, E-l-l-e-y. And one or two other executives came from Bank America—the Bank of First America.

Senator KERRY. Now when you say a conference, can you—well, I do not want to jump that far ahead. I am going to wait. We'll come back to that. Let us come back, if we can stay consecutive here. So Mr. Abedi was handling the American side, and he was principally the front person for the bank?

Mr. RAHMAN. In the sense that any high level contacts, he would make those contacts himself. And Mr. Naqvi——

Senator KERRY. Now as the bank grew, that changed, did it not?

Mr. RAHMAN. Yes. In the sense that—in an operational sense, in the banking operation sense, various executives had two roles. One was that they had a functional role as head of inspection or head of credit, or head of finance, like myself, head of automation, head of personnel. But they also had a side role that one or two countries were allocated for them to oversee, just to keep them in touch with the functions of the bank at the field.

So in that capacity, I also had the role as head of finance plus three countries I was associated with. That was Egypt, Ghana, and Spain. Like that, different executives had different countries allocated to them to oversee.

Senator KERRY. As time went on and the bank grew considerably, I mean, give us a sense. You started out as a $2.5 million capitalization and $100 million in assets.

Mr. RAHMAN. Yes.

Senator KERRY. Approximately in 1974. By 1980, how big was the bank?

Mr. RAHMAN. By 1980, it was nearly $10 billion—oh, about $8 billion.

Senator KERRY. $8 billion.

Mr. RAHMAN. Yes.

Senator KERRY. So it went from $2.5 million to $8 billion in the span of 8 years.

Mr. RAHMAN. Yes. And capital about $600 billion.

So the growth of the bank during that time——

Senator KERRY. And during that growth, if I could just interrupt you, during that time, I gather you hired a lot of people, many of whom were not experienced in banking. Is that correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. And they were given a certain free lead, were they not?

Mr. RAHMAN. Yes.

Senator KERRY. So for instance, a relationship with a General Noriega was entered into by Mr. Abedi or by someone with some enterprising energy at the local level?

Mr. RAHMAN. I think it was at the lower level. The basic technique of the operation evolved was that Mr. Abedi wanted the senior people, the more experienced people to be in the head office to look after credit or treasury or risk areas. But where it came to external development or marketing, he preferred much younger officers. He felt that they had much more vibrant abilities and they could work longer hours. They could move about, they were not tied to family situations, et cetera, et cetera.

Senator KERRY. They also were less accountable, were they not?

Mr. RAHMAN. Well, because they never got an all round banking training in the sense that the senior bankers got. They were taken very raw and relatively ripe with few years banking, and put into country positions.

Senator KERRY. Well, is it not unusual to take people without banking experience and put them in charge of a bank in a country or a branch?

Mr. RAHMAN. Well, the No. 1 man would normally be about 8 to 10 years experience. But the immediate other officials in the bank, in the branch or in the country bank, would be quite new with 3 years to 4 years experience.

Senator KERRY. Would you describe for us, Mr. Rahman, the structure of the bank as it grew, sort of toward 1980?

Mr. RAHMAN. Well, as I said that first in the personnel structure, I started to explain that there was Mr. Abedi at the very top, there was Mr. Naqvi who was like a chief operating officer, who converted Mr. Naqvi—Abedi's ideas and things into practical shapes. And then there was a big gap between these two and the other executives who were all called general managers. All of us were called general managers.

And each of us were sort of indicated that we should all work in our own respective areas. And if you tried to encroach into another one's area, it was deemed that you were being aggressive, you want to promote yourself, and so every executive just tried to keep to his functional division and if from my accounts department, if I tried to send some of my staff across to credit division or to the inspection division, immediately I would get feedback that that was not liked and why was my staff over there in the other division.

So this is something that Mr. Abedi and Mr. Naqvi propagated also, which allowed them to deal with heads of division one to one. And therefore, you had a flat surface with lots of direct lines to Mr. Naqvi, and everybody else kept to a Chinese wall isolation in their own respective area.

When this type of structure was growing, I was very uncomfortable because in PIDC days, in the government, I could go across the board and go to any division and see any of the operation. But here I could see these Chinese walls were getting very, very water tight and we were always taught about humility and ego and anything that was slightly out of context was considered just an ego trip trying to propagate yourself or project, or become senior to everybody else. You shouldn't be senior to anybody else, you're all the same pay, same benefits, same type of——

Senator KERRY. What was your pay at this point in time?

Mr. RAHMAN. My pay had started very low at about $18,000 and went up to about $120,000 over the period. In pounds, sorry.

Senator KERRY. In pounds. So you were earning about $300,000?

Mr. RAHMAN. $120,000 pounds is about $220,000.

Senator KERRY. $220,000.

Mr. RAHMAN. At the end of my career, yes. And now the other situation was that realizing this, the way it was structured at the head office, and then they created many regions, about 13–14 regions, and there was a regional structure with a very senior banker in the region. They also became like in charge of the empire, and your trying to go too much into their area was also not liked. You literally had to have——

Senator KERRY. What was the impact—you have described this a sort of a free-floating management style. Is that accurate?

Mr. RAHMAN. Right.

Senator KERRY. What was the impact of that kind of management structure?

Mr. RAHMAN. Well, the impact was that the level of control required from head office was obviously missing and Mr. Abedi and Mr. Naqvi and others would say that well, all the results and all the growth of the bank is in the field. It is they who produce the results, it is they who produce the profits. What can you do sitting in London, so leave them alone. So that was propagated in the bank in order to give more power and more authority to each regional head, who, again, preferred to relay to Mr. Naqvi and to Mr. Abedi, both for their own career and to show that they are superior to head office executives.

Senator KERRY. What was the effect of having the bank split into two entities, one based in Grand Cayman and one based in Luxembourg?

Mr. RAHMAN. Well, the more number of entities there are in any organization, obviously the more isolation you can put each section to. And if you do an intercompany position, then unless you know both companies' position, you could get half a picture. So there was that situation also.

Senator KERRY. And who had the whole picture?

Mr. RAHMAN. The whole picture, Mr. Naqvi would put together in terms of the underlying activity and underlying clientele names and relationships. He had the best global picture.

In a pure accounting sense, when the figures are put together, I had a picture because all the audited cassettes used to come to me and I used to put them on computer for consolidation.

Senator KERRY. But what you would do, I understand, is take the audited cassettes——

Mr. RAHMAN. Yes.

Senator KERRY. The auditing done separately.

Mr. RAHMAN. Yes.

Senator KERRY. It wasn't your audit, it was someone else auditing. And you would draw your picture of the financial structure, would you not, from the audits that you were provided. Is that correct?

Mr. RAHMAN. Right, sir. In fact, I was going to say that because I realized the danger of this evolving structure and the management style, I insisted that we had the best and biggest auditors. And so we from the early days had two of the biggest audit firms, Ernst & Whinney which became Ernst & Young, and Price Waterhouse.

Senator KERRY. Now one of them—who was the auditor for BCCI Luxembourg?

Mr. RAHMAN. In the early days, both the holding company and the other banks, other than BCC Overseas, was done by Ernst & Whinney. And from the very beginning, BCC Overseas was done by Price Waterhouse. So one of the flag bank was done by Price Waterhouse, and the other flag bank and other subsidiary banks were done by Ernst & Whinney.

Senator KERRY. What was the effect of having two auditors auditing separate entities of the bank?

Mr. RAHMAN. Well, as far as the individual banks are concerned, they are an entity in itself. The 52 other small, small banks, they were all audited independently, and they were audited and certified by the local auditors and overseen by Ernst & Whinney. Price Waterhouse did the audit of Grand Cayman and all the branches of

the Grand Cayman Bank. At the end of this period, which took a long period from—it was more or less continuous from September all the way to February, we had two audits each year, one based on the September position for 9 months, and one based on the December position, which was done in January and February.

So we gave full authority and access to these audit firms and we indeed, toward the end were paying $4 million a year in audit fees.

Senator KERRY. Now, at some point did Price Waterhouse become auditor for the entire bank?

Mr. RAHMAN. Yes.

Senator KERRY. What year was that?

Mr. RAHMAN. This happened in 1985. We had a tremendous disaster in treasury. And I was going to come to that. But soon after that, and all this disaster happened right under the nose of Price Waterhouse, who were auditing both the Grand Cayman Bank and the treasury division of the Grand Cayman Bank, which was a division of the bank.

Senator KERRY. Let me just step back for 1 minute.

Mr. RAHMAN. Yes.

Senator KERRY. What was attractive—why locate in Grand Cayman? What was the attractive feature about that?

Mr. RAHMAN. Well, the rationale given at that time was that in taxation terms the tax laws were such that besides paying tax in each country from the profits of the countries results, any profit remitted to head office in Luxembourg got taxed again. So we were suffering two-tier taxes, one at the locations which was quite high, and then, when the profits were brought to Luxembourg, it got taxed again.

So while having one of the bank's head office in Grand Cayman, this two-level tax was avoided, and only the tax of the country concerned was there. And Grand Cayman did not put any supplementary tax on it.

But in reality what happened is that the tax of each of the Third World country was so high that it didn't make any real sense of what was left of the profit at Grand Cayman. And Grand Cayman itself, which is supposed to be a profit center, became a major loss center. So it did not have any tax-free profit at all.

Senator KERRY. There were also benefits, were there not, with respect to regulation, regulations are not very stiff, correct?

Mr. RAHMAN. Regulations also, because of the evolving Basle conference and others, it was seen that the regulation requirements were very stiff in the European context. Grand Cayman had a small regulatory agency, though controlled by Bank of England. And there was obviously more flexibility in recordkeeping in Grand Cayman.

Senator KERRY. Now, Mr. Rahman, here is the bank steaming along doing very well, going from $2.5 million up to $8 billion. Get into the 1980's, got this freewheeling regulatory structure, freewheeling management structure, a lot of money coming across the transom, and all of a sudden 1985, big losses. Correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Trouble on the horizon.

Mr. RAHMAN. Yes, sir.

Senator KERRY. Is that right?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Would you describe the 1985 trouble?

Mr. RAHMAN. As I was explaining that because of this freewheeling structure, I had particularly instructed the partners of both Price Waterhouse and Ernst & Whinney that if ever anything out of context was found in the course of their audit, they must inform me and not wait for the normal audit process or end-of-the-year audit. And in a few cases, they would bring such incidents and I would take immediate retroactive action on that.

On that basis, we had also a very powerful internal audit division which was set up by Bank of America, indeed, in the early 1970's. And this division was the most feared division of the bank, because they had over 200 inspectors going around the world spontaneously without notice, very short notices, doing intensive investigative audit of our own operation, their reports were very, very comprehensive. They were in three parts.

There was a part dealing with the credit, which is the risk area of the bank, all of the loans and documentation, there was an area about the operational deficiencies in terms of any defects in the operation, and then there was a confidential third part which talked about individuals in that location and their lifestyle.

The purpose of such a part, the third part, was to see whether the officers and executives in the field were apparently living within their means and having lifestyle which could be explained by the nature of their job and the seniority of their job.

So every executive round the world, every officer, dreaded the inspection division, and it was headed by a very, very powerful gentleman called Mr. Saleem Siddiqui.

Senator KERRY. Called Mr. what?

Mr. RAHMAN. Saleem Siddiqui, S-a-l-e-e-m S-i-d-d-i-q-u-i, and it was said quite knowingly in the bank that he used to also keep a black book for himself, where he noted special things for use in due course.

So I tried many times to have access to that, but the instruction of Mr. Siddiqui was, they are only meant for the board, those reports, and to the general manager in control of that area, not meant for any central figure like myself. So I used to tell the Price Waterhouse and Ernst & Whinney to please review these reports and also please keep me informed, because you are more my eyes and ears than my own inspection division.

Senator KERRY. Did they in fact review those reports?

Mr. RAHMAN. I think that that was a part of their audit process. I don't know how much.

Senator KERRY. But you don't know how much?

Mr. RAHMAN. I don't know how much was shown to them and whether the edited version or the real full version, what was shown to them. But between these two levels of inspection I was expecting that every year what would come to me would be the certified, audited accounts from which are built up the balance sheet.

Coming to 1985, 1986, what happened in the early 1980's, Mr. Naqvi and Mr. Abedi persuaded the board that there are substantial dollar surpluses from the Arab world coming into the bank, and we needed now to pool it in a central place rather than leave it in 5, 6, 8, 10 countries, and so these surplus dollars should be

pooled under one control situation for better liquidity management and for better management control.

Senator KERRY. These dollars were coming from where?

Mr. RAHMAN. Mostly from the Arab world. Most of them from the Arab world. Some from Africa, Asia.

Senator KERRY. So they wanted to put these dollars into one central location?

Mr. RAHMAN. Yes, and monitor it through a central treasury division which they established in Grand Cayman.

Now, this division was manned by four or five people only under Mr. Ziauddin Akbar, Z-i-a-u-d-d-i-n A-k-b-a-r.

Senator KERRY. Say that again?

Mr. RAHMAN. Ziauddin Akbar, A-k-b-a-r.

Senator KERRY. Did this group have anything to do with ICIC?

Mr. RAHMAN. No; ICIC was run completely independently and separately. I'll come back to that.

Senator KERRY. Did these dollars somehow come to be played in the commodities market?

Mr. RAHMAN. Yes. The board, after reviewing this proposal they laid down very strict regulation regarding how it was to be used, and they laid down that the bulk of it would be used for liquidity management by placing it with other prime banks or buying U.S. Government stocks or Treasury notes and U.K. Government stocks, gilts, et cetera, and a small amount—less than 10 percent—was to be used for trading.

Senator KERRY. For trading in commodities?

Mr. RAHMAN. In commodities, foreign exchange, even bonds.

Senator KERRY. With an agreement that the exposure of the bank would go up to $100 million, is that correct?

Mr. RAHMAN. Yes. The guidelines were that the maximum loss that Treasury should ever, ever have is $100 million. That was what the bank felt it could ever sustain. Not that they wanted to lose $100 million, but that's the maximum cutoff point.

Senator KERRY. In point of fact, how much did the bank wind up losing?

Mr. RAHMAN. Now, just to give you an idea, in order to lose $100 million on a 10-percent margin it means that the bank could expose itself, gross exposure, of about $1 billion, so these were the guidelines on which it was working.

Indeed, what happened is that in the mid-1985's the chief treasurer and his assistant, along with Mr. Naqvi's guidance, started taking very, very large exposures, and this was going on simultaneous to the interim audit which Price Waterhouse people were doing at the time.

Price Waterhouse used to come in immediately after September 9-month closing and literally live to mid-December and then with a brief break over Christmas and New Year's would come back again for the final. So it was a constant process of audit. I met God-knows how many dozen partners and managers all over the building, and they had free access to go including to the treasury division.

The treasury division was physically located in London, though the booking was going on in Grand Cayman books. So it was easy enough to meet the officers concerned and the Price Waterhouse team used to go and talk to them and see their records and books.

Senator KERRY. What are you saying? What is the bottomline there with respect to the loss on commodities?

Mr. RAHMAN. What I'm saying is that if the guidelines had been maintained and Price Waterhouse had been doing anywhere near their job, there's no way that this $1 billion exposure which was taken to $11 billion exposure in the course of 3 or 4 months could have happened—$11 billion exposure.

Senator KERRY. So 11 times the exposure level?

Mr. RAHMAN. Eleven times, and this was done by not more than two or three of the executives in the treasury division directly under Mr. Naqvi, and the reason why this is being done is that they were in total breach of a basic policy in trading, treasury trading, and that is that when you receive a premium for an open position for a forward contract that premium is a reserve for settlement when the contract matures, but they were using this premium as if it was income, and booking it as income.

Senator KERRY. So this was sort of the beginning of a Ponzi scheme, is that correct?

Mr. RAHMAN. Yes, exactly, and every time it became a loss they would have to take a larger position, and we also found in retrospect, or when I did my inquiry subsequent to the disaster, that they had also set up an intermediary company called Capcom.

Senator KERRY. Capcom?

Mr. RAHMAN. Capcom, C-a-p-c-o-m, in which Mr. A.R. Khalil, who was a shareholder of the bank, was also a shareholder of that company, and it is said that Ziauddin Akbar himself had interest. I don't know who else had interest. So many of the trades were being put through that company. So considering that the——

Senator KERRY. This was what year?

Mr. RAHMAN. This was still going on through 1984, 1985.

Senator KERRY. 1984, 1985?

Mr. RAHMAN. Yes, and considering that Price Waterhouse had not only their——

Senator KERRY. Mr. Khalil, as you describe him, is he a shareholder in BCCI?

Mr. RAHMAN. He is deemed to be a shareholder in BCCI.

Senator KERRY. What does "deemed" mean?

Mr. RAHMAN. Because subsequently in Price Waterhouse's report, which I have referred to, they have said that for several years they have not been in touch with him and we don't know what his status is, and whether he left, or whether he was ever there.

Senator KERRY. What's his relationship to the bank?

Mr. RAHMAN. Well, he has been very close to the bank. At least, his name has been very close to the bank in terms of being a shareholder of the bank and also a shareholder of CCAH First America.

Senator KERRY. A shareholder of CCAH First America?

Mr. RAHMAN. Yes.

Senator KERRY. Was he somebody who you came to understand was a convenient purchaser of stock and somebody in whose name shares moved back and forth?

Mr. RAHMAN. Well, in the investigation I carried out in March-April 1990, which I will refer to later, we concluded that we could

not be certain about the status of A.R. Khalil, but efforts should be made to find A.R. Khalil and get his documentation done.

Senator KERRY. Have you ever met him?

Mr. RAHMAN. I have never met him.

Senator KERRY. Has anybody ever met him?

Mr. RAHMAN. I don't know.

Senator KERRY. Is he a real person?

Mr. RAHMAN. I don't know.

Senator KERRY. Could he not be a real person?

Mr. RAHMAN. Could be.

Senator KERRY. Have you heard that?

Mr. RAHMAN. I read that in some papers and things afterward.

Senator KERRY. But you don't know the answer?

Mr. RAHMAN. I don't know the answer.

Senator KERRY. Excuse me?

Mr. RAHMAN. I don't know the answer.

Senator KERRY. But that same Khalil to whom you're referring was made a substantial shareholder in the First American Bank, is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. But you don't know who he is?

Mr. RAHMAN. No, I don't.

Senator KERRY. No background?

Mr. RAHMAN. He is supposed to be a high net worth man from Saudi Arabia, and that's about all that was ever referred to.

Senator KERRY. Returning now to the 1984–85 transactions, prior to these losses, had the bank been incurring losses through any other schemes that you knew of?

Mr. RAHMAN. No. Indeed, till this year, every year had been financially a good year, and this is why I am very depressed to read allegations that the bank was never in profit. I mean, the business of the bank grew.

The deposits of the bank grew, and indeed, because of the network of the bank, its trading business, it became known as the trading bank of the world, one of the trading banks of the world, and in banking terms there is substantially more banking income for doing trading business because of the commission and foreign exchange earnings that you get from international trade compared to just personal loans, which has a fixed return, et cetera.

So everybody who knows banking would say that it would be far better to spread your activity not in fixed term loans with differentials but to add on by actually associating in the business in terms of commission and exchange income.

Senator KERRY. So the bank was going for bucks, bigger bucks, faster profit?

Mr. RAHMAN. Yes, but I mean, trading is not something nasty and wrong in the first instance.

Senator KERRY. No, but it is a question of who is doing it, is it not?

Mr. RAHMAN. Well, by the last year that I was there, the bank was doing about $18 billion worth of global trade. Considering that global trade is over $3 trillion, that is not a big sum, but it was a very big sum for an 18-year-old bank, and that was a very big source of its international income.

Senator KERRY. Now, prior—so is your testimony that in 1984 and 1985 this is the first loss that you became aware of?

Mr. RAHMAN. Yes. Well, 1985, 1986. In 1984 they started activity in this manner.

Senator KERRY. In 1985 and 1986 it was loss?

Mr. RAHMAN. Yes, the loss. Now, that loss, Price Waterhouse—again what happened is that they did not find this loss in the September audit, and again December audit was complete for the rest of the world when they informed me suddenly, the partners, that they have come across these irregular transactions in treasury which will lose between $300 and $500 million, which was equivalent to the whole capital of the bank, so I was stunned that they should tell me later in January that something of this nature has happened. I said, these must be going on for months together, if not years. What happened?

They fudged and they foundered and they said, well——

Senator KERRY. You said they fudged?

Mr. RAHMAN. They never gave me a good explanation as to why they didn't find them before. I said, look, the department has hardly 10 people. It has, maybe 100 files, and they were all sitting in one small section of one floor, and all this is happening over there.

We are supposed to get confirmatory certificates from the counterparties, and the counterparties were all top names like Goldman Sachs, Salomon Brothers, and all these big names. I said, how can you have been auditing this and not knowing that such positions are being taken? The technique of auditing treasuries is well-established. It's not new. I mean, it's new to those who don't know how to do it, but it's very well established, and they had special treasury-related audit experts who were doing the treasury audit.

Senator KERRY. Now, just to be clear here, at this point in time these losses were incurred under which company, the overseas—under the overseas entity?

Mr. RAHMAN. The head office Grand Cayman, yes.

Senator KERRY. At this point ICIC didn't figure into this?

Mr. RAHMAN. Not as yet. ICIC's a parallel situation, and I'll come back to that.

Senator KERRY. It's a parallel situation?

Mr. RAHMAN. Completely parallel to the bank.

Senator KERRY. ICIC is what we would call the bank within the bank, is that correct?

Mr. RAHMAN. Yes, sir, and we'll come back to that just now, OK.

Senator KERRY. Now let me just understand for the record, here. The impact of these losses of some—was it $400 million?

Mr. RAHMAN. $430 million.

Senator KERRY. $430 million—the impact of the loss was to wipe out BCCI's capital, was it not?

Mr. RAHMAN. Effectively, yes.

Senator KERRY. Effectively. So here is a bank, sitting here suddenly stripped of its capital.

Mr. RAHMAN. Right.

Senator KERRY. And deeply entwined with a number of people who had big loans but weren't paying them and possibly weren't capable of paying them, correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. So what was the next step?

Mr. RAHMAN. Well, they insisted that they could only certify the accounts after we close out the positions, and we were very upset that if we closed these positions very abruptly you lose even more, but they were not willing to wait to close on due dates, so we lost over $430 million in this.

Senator KERRY. Well now, in fairness, it was a good call by Price Waterhouse?

Mr. RAHMAN. It was. It had to be done, but there are mechanics. If anybody understands treasury of doing proper closing, you can buy, rebuy, resell, forward contract, instead of just saying cut. The moment you cut, the market responds and they take a harder position on you, and I think the whole of Chicago and New York must have been horrified that this little bank had taken this sort of position and was closing up.

So anyway, so at that time we were literally stripped of capital. Mr. Abedi went to Abu Dhabi, apparently to try to salvage something from Sheikh Zayed, and the next I knew was that $150 million was being raised to compensate for this, and this arrived quite abruptly, $150 million.

I was thinking—the general news was that it was coming from Sheikh Zayed or somebody from Abu Dhabi, but I pressed Price Waterhouse if they were aware how this was happening, because they were on an ongoing basis watching the situation, and indeed, Ernst & Whinney partners had got in the act. Their experts had come, because effectively the whole group was finished, so Ernst Whinney got very, very upset that one bank in the group have caused the whole group to go down.

Early, also, they wanted to be auditors of all the banks, but somehow overseas remained with Price Waterhouse.

Senator KERRY. Let me ask you at this point, Mr. Rahman, we are into 1986. Previously, in the early years of the 1980's, were there not some accusations about the bank having been involved in some irregularities in some of the markets in Europe?

Mr. RAHMAN. Whenever these irregularities that used to come, whether in Sudan or Egypt or India, used to be separately investigated by the inspection division and sometimes I would get involved to understand the financial implication.

But these were 90 percent of the time related to foreign exchange-related transactions because in most Third World countries the foreign exchange regulations are very tight, and the moment the regulations become tight the secondary market operates and different values begin to quote itself in currencies, so sometimes the manager would get involved in some irregularities in relation to foreign exchange transactions, and we in most cases would want to either sack the man straight away or suspend him, or bring him to head office in a nonfield job so that he cannot be in the field doing any transactions of his own.

Senator KERRY. There was a memo written in this country by the CIA in 1986 which already had a reference to BCCI as the bank of crooks of criminals. You have heard of that memo, have you not?

Mr. RAHMAN. I have heard subsequently even more. But when you have 1.3 million customers in 73 countries and the customers

use any name or any company name, it would be—unless you are directly involved in creating that account, nobody would ever get to know what that account was and what was the nature of the transaction in the account. If at all, the local general manager or the local country manager may know. And somebody in the head office also may get to know. But it would be not normal for a global bank with 1.3 million customers to relate to this account. I mean, as recently——

Senator KERRY. Is it not fair to say, and believe me, I am not trying and I do not want to and I am sure I cannot put words in your mouth, but you have described a structure that is pretty lose, management structure. You have a lot of young people out there who do not have banking experience. We have all seen, and in recent years we are learning a lot more about the problems of banks. We have had very well known, known bank of high reputation and standing, that have had problems with money laundering in this country, knowingly.

Mr. RAHMAN. Yes.

Senator KERRY. So it is clear that the notion in the banking industry, know your customer—you are familiar with it. Correct.

Mr. RAHMAN. Yes.

Senator KERRY. That is the Basle Convention adopted principle of banking, is it not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Know your customer.

Mr. RAHMAN. Yes, sir.

Senator KERRY. And in point of fact, it is fair to say that that is not a principle that has been really applied very strictly by many banks in the world, is it? Is that accurate?

Mr. RAHMAN. Well, I believe that——

Senator KERRY. Or did they know General Noriega and like it?

Mr. RAHMAN. When we come to these sort of names, it is very difficult for a bank which has entered a country for commercial business, and the hundreds of banks entering countries for commercial business, to know what the President of the country, how important or how bad or how good he is. I do not think that banks go into countries with moral issues in mind, to safeguard the country from immoral leaders. And if every bank is following a leader, then knowing that leader perhaps is deemed credible.

As I will come to Panama and Noriega again later on, I will expound on this a little bit more.

Senator KERRY. OK. Good enough.

Mr. RAHMAN. But coming back to the treasury because it is such an important event in the life of the bank that I think it has singed the bank and the bank has really never fully recovered from such a heavy loss.

But coming to the $150 million, I pressed Price Waterhouse to try and explain, you know, and they explained that the trustees of the staff benefit fund—and here is where ICIC is coming in—has contributed this from the staff benefit fund.

This was shocking news in the sense that in a normal situation, if a bank faces a crisis of this type, there is a standard process to be followed. And that is that the directors would be informed. The directors would then inform the shareholders full facts, and give

the choice to the shareholders of either you close this bank or you recapitalize the bank. And the choice is very easy that they have to issue new capital.

Senator KERRY. Did that take place here? Was anybody notified?

Mr. RAHMAN. Nothing like this happened.

Senator KERRY. Nothing took place?

Mr. RAHMAN. Nothing was done.

Senator KERRY. Now the exposure you are talking about, am I correct that at this point in time in 1985 or 1986, you had $275 million to the Gokal Shipping Group?

Mr. RAHMAN. There were large loans. I would not recall, but these clients were all there. The ones which you see in 1989, 1990, were already there in 1985, 1986, but figures may have been substantially smaller. But the names were similar.

Senator KERRY. Were you concerned about the possibility of a run on the bank at this particular moment in time?

Mr. RAHMAN. It was kept an incredible secret. Not more than four, five people knew what had happened because it had happened in a very specialist area, not affecting the commercial banking around the world.

Senator KERRY. Because it was this unique——

Mr. RAHMAN. It was a unit——

Senator KERRY [continuing].Set-aside?

Mr. RAHMAN. Exactly. It was a small unit, under 10, 12 people directly under the chief executive. And so there was hush-hush talk that there had been some loss, we heard that there some loss. But nobody guessed how big and nobody knew why. And it was isolated from the rest of the bank totally. The rest of the bank was audited, closed, certified; everything. So it was not anything to do with the bank.

So, anyway in retrospective, I felt that the reason why the board and others had agreed, and the rationale given was the bank was collapsing anyway and the staff could had lost their job anyway and savings would have gone anyway, so you might as well use some of this to try and salvage the bank, which I suppose in a very broad commercial sense, moral sense, made meaning, but it did not follow the technical steps.

Senator KERRY. So who bailed out the bank? There was no technical process implemented to do deal with this, but the bank got bailed out.

Mr. RAHMAN. $150 million of it got bailed out.

Senator KERRY. Only $150 million.

Mr. RAHMAN. $150 million.

Senator KERRY. And that was bailed out partly from ICIC?

Mr. RAHMAN. Only from ICIC.

Senator KERRY. Only ICIC.

Mr. RAHMAN. Only ICIC. The—from the staff benefits part of ICIC. There are different part of ICIC. I will explain that.

Senator KERRY. From the staff benefits side.

Mr. RAHMAN. Staff benefit side.

Senator KERRY. Now at this point in time, you still understood ICIC to be the golden nest egg for you people who had been in the bank early and for employees. Is that correct?

Mr. RAHMAN. Exactly.

Senator KERRY. Now what happened after the $150 million came forward?

Mr. RAHMAN. Well, that—I was then informed. I pressed Mr. Abedi for and he said yes, we have done it but do not worry, more is coming from other shareholders and you will soon see a complete revival and we will have more capital and more shareholders, very heavyweight.

And indeed, soon after that, the very powerful Saudi group, Khaleed Bin Mahfuz, who were one of the richest group in Saudi Arabia, who owned National Commercial Bank, which was the biggest bank of Saudi Arabia, took out a very big chunk of the bank.

Senator KERRY. How much?

Mr. RAHMAN. They had a right to go up to 30 percent of the bank. And they also gave capital notes of about $300 or $400 million which was redeemable into capital after so many years.

So that genuinely gave the bank a new lease on life and a new strength. Because up to then, most of the capital was from Abu Dhabi, which meant you are loading yourself on a single country rather than spreading it out. And this brought a very major shareholder from Saudi Arabia, which is much, much bigger than UAE.

So we managed to live out 1985, 1986, and we continued to have a fairly good growth till 1988. And then we had the situation with the drug.

Senator KERRY. The situation with the drugs?

Mr. RAHMAN. With the drugs.

Senator KERRY. You are referring to Florida now?

Mr. RAHMAN. Florida case. Now, here again, I must again explain the structure of the bank that each area was allocated to some general manager and he was like a regular mother hen to that and would not like interference from other executives. And if anything had to be discussed by him, he would not think it worthy to discuss with another general manager but only with the president. So he would only take it to the president or deal with it himself.

So the general manager for U.S.A., who was originally Mr. Shoaib, was at that time Mr. Ameer Siddiki, A-m-e-e-r S-i-d-d-i-k-i.

Senator KERRY. He was based where?

Mr. RAHMAN. He was based in London but overseeing the whole of the Americas. He was assisted during that time by Mr. Dildar Rizvi, D-i-l-d-a-r R-i-z-v-i.

So they alone oversaw the operation. We had also a very senior banker, Mr. Shafi, who was based in Miami. And we had a very senior assistant, Mr. Sakhia, S-a-k-h-i-a, also assisting him in Miami.

So there were enough executives overseeing what was then not a very big operation at all. It was a fairly small operation by the total global size.

Senator KERRY. What did you understand the BCCI operation in the United States to be then?

Mr. RAHMAN. Just that we had started four or five operation, three of them—four of them as OBU's, meaning you can do foreign business and you can bring foreign deposits; you could lend locally but you couldn't raise money locally. And all the money had to come from Middle East, Latin America, or somewhere else. But

could be lent, either abroad or it could be lent locally. So this limited the risk for the U.S. citizens.

And we had such an operation in New York, in Florida, in Los Angeles, and San Francisco. We also had a few rep offices in Houston and Chicago and Washington.

Senator KERRY. Is that your full understanding——

Mr. RAHMAN. That was our full—that was all that we consolidated, that's all that we audited. That's all that——

Senator KERRY. What about the National Bank of Georgia, First American and——

Mr. RAHMAN. No, it never came into our balance sheet. We did not even—sometimes I never saw their balance sheet.

Senator KERRY. What was your understanding then of the so-called delegates who would meet at your conferences?

Mr. RAHMAN. Yes. When they used to come, because there were some deputed officers from BCC who were seconded to these banks, they would come, plus some of the American senior executives would come. And they would talk about their operation and their success and how they are faring.

Senator KERRY. Why would they do that? What was the relevance of an American bank that had nothing to do with BCCI?

Mr. RAHMAN. I think the brotherhood feeling remained. That they were all sort of brothers in the same process and—be it through common shareholding or——

Senator KERRY. Why was there not somebody there from Citibank or First Bank of Boston or something? Why National Bank of Georgia and——

Mr. RAHMAN. Well, at least it was known that they were common shareholders owning both banks. At least that is the official version very strongly propagated.

Senator KERRY. OK. Now, I have had a BCCI annual conference in Vienna, February 26–27, 1984. List of participants, at the Hilton Continental: Board of directors were there, including Mr. Abedi, a number of other people and then various guests, a fairly significant group of guests from the National Bank of Georgia. This is in 1984. And special invitees including a Mr. Altman and a Mr. Elley, K.K. Were you at that meeting in Vienna?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Do you recall that?

Mr. RAHMAN. Yes, sir.

Senator KERRY. What went on at that meeting?

Mr. RAHMAN. These conferences——

Senator KERRY. Let me put this in the record as document No. 10 at this moment.

[The information referred to follows:]

BCC ANNUAL CONFERENCE VIENNA 1984

(26TH - 27TH FEBRUARY)

LIST OF PARTICIPANTS

			HILTON/ INTERCO
BOARD OF DIRECTORS			
AREDI, Agha Hasan	-	President	-
AL-MAZRUI, Shanim Faris	-	Director	I
[illegible], P.C.	-	Director	I
VAN OPNEN, J.D.	-	Director	I
GUESTS			
Attock Oil			
AMINUDDIN, Usman			I
BAQI, M.A.			I
CHAUDHRI, Amjad			I
KHAN, Afzal			I
LODHI, T.A.T.			I
SALIM, M.			I
Auditors			
FEAR, Richard	-	Price Waterhouse	I
HARRIS, R.	-	Price Waterhouse	I
HAY, K.	-	Ernst & Whinney	I
HEATH, R.	-	Ernst & Whinney	I
STONE, T.	-	Ernst & Whinney	I
BCC Foundation			
ALI, Abid			I
SAEED, Afzal			I
Credit & Commerce Insurance			
BHIMJEE, R.			I
HASAN, Nawab			I
KHAN, Aziz			I
WALAJAHI, S.A.			I
Cromwell Hospital			
KHAN, Amanullah (Dr)			I
NIZAMI, Asghar (Dr)			I

Health

HAMEED, K. (Dr)	I

International Travel Corporation

ANWER, Saghir	I

Khalij Commercial Bank

RAZA, Ahmed	I

National Bank of Georgia

BATASTINI, W.W.	I
CARLSON, R.P.M.	I
CATER, Vince	I
FREEMAN, Guy	I
HARREL, Richard	I
JAMIL, Tariq	I
KENEMAN, Richard C.	I
MUJTABA, Asif	I
PLOMGREN, Theodor	I
RAZA, Mehdi	I
WALKER, James	I

Special Invitees

AFRIDI, Aijaz	I
AHMED, M.M.	I
AL TAYER, Obaid Humaid	I
ALI, Majid	I
ALTMANN, R.	I
ELLEY, K.K.	I
FREEMANTLE, Anthony	I
KHAN, Ikramullah	I
PROF A MONEIM EL-MELIGI	I
RICHTER, Bruno	I
STEVENS, R.	I

Third World Foundation

GAUHAR, Altaf	I
GAUHAR, Humayun	I

AFFILIATES

Ahmed Bin Oboud - Jeddah

HASAN, Asrar	I

BCC Emirates - Abu Dhabi

ALLARAKHIA, Mahmood S.	I
ASIF, Kh. Mohammed	I
GHANI, S. Saeedul	I

BCC Emirates - Abu Dhabi (cont'd)

GILANI, S. Jawaid	I
HANNANI, Ghulam	I
HASAN, Raza	I
IQBAL, Zafar	I
JAVED, Mansoor Ahmed	I
KHAN, Javed Ali	I
KHAN, Naeem	I
KHAN, Rashidul Hasan	I
KHAN, Shamsuz Zaman	I
KHURSHID, Mohsin	I
KIRMANI, S. Saeeduddin Ahmed	I
MINHAS, Jamshaid Akhtar	I
QURESHI, Ziaullah	I
RASHEED, Kh. Toseef	I
SHEIKH, Ajmal	I
SHER, Anwar Qayum	I
SIDDIQI, Aqeel	I
TAHIR, Bashir A.	I

BCCI - Lebanon

FAYYAZ, S.M.	I
RAJI, Assaad Abi	I

BCCI (Nigeria) Ltd.

AHMED, Alhaji A.	I
ANKA, S.S.	I
BHATHENA, M.D.	I
KARKERA, D.S.	I
KRISHNAMURTHY, T.N.	I
MADOJEMU, J.O.	I
MALIK, Ghazanfar Ali	I
OGUNDA, B.O.	I
OGUNMOKUN, W.O.	I
RAZA, S. Qaiser	I
SACHEDINA, S.M.	I
SATUR, R.J.	I

BCP - Switzerland

CHAUWDHRY, Aziz Ullah	I
HASSAN, N.	I
SPOERRI, W.	I

Ital Finance - Italy

HAQ, Shaukat	H
LUIZ, Kevin	H

LATIN AMERICA

Regional Office

AKBAR, S.M. I
HASAN, Bande I
RIZVI, S.M.H. I
SHAFI, S.M. I

Brazil

PRUD'HOMME, Eric I

Colombia

BILGRAMI, Akbar I
ZARATE, Eduardo I

Grand Cayman

HASSAN, Sharaful I

Uruguay

SHABBIR, S.A. I

Venezuela

ANEZ, Luis E. (Dr) I

NEW YORK

ALAM, Khurshid I
HELMY, Abol I
JHALA, K.G.S. I
KHAN, Shafiqur Rehman I
LODHI, Amer I
SHARIH, Khalid I

WASHINGTON

AHMED, Sani I
→ CALVO, A. (Dr) I

WESTERN AMERICA & PACIFIC

Regional Office

O'BRIEN, Patrick I
SAUBOLLE, Louis E. I

San Francisco BCC (HK) Ltd

MOHIUDDIN, Sultan I

Mr. RAHMAN. These conferences were really not at all banking in nature in the sense that we never discussed concrete banking proposals or banking strategies or plans. They were really a get-together of colleagues of the world hearing about some success stories in different parts of the world, and just little matters. And Mr. Abedi held the stage for the bulk of the time. And he talked about abstract subjects, about totality and the role of a growing organization and change and the process of change.

So while it was a good break from our work, and a good way to say hello to many of our friends whom we otherwise didn't meet from the field, it had no commercial purpose at all.

Senator KERRY. At any of the conferences that you attended, did Mr. Altman ever make a presentation at any of those?

Mr. RAHMAN. I can't recall. I don't think so.

Senator KERRY. Did any banking officials from the National Bank of Georgia make presentations?

Mr. RAHMAN. Yes; they made several presentations.

Senator KERRY. Would those have been presentations by Mr. Roy Carlson?

Mr. RAHMAN. Yes.

Senator KERRY. And by Mr. Tariq Jamil?

Mr. RAHMAN. Yes.

Senator KERRY. And he was president; is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. Now, coming back, you were describing the beginning of the drug problem and the structure as we were going down to Miami in 1988. Correct?

Mr. RAHMAN. Yes, sir. We were having one of our smaller conferences where about 100 delegates come from different parts, which is somewhat more concrete in terms of programs for the next so many months, et cetera. And we had delegates from all over the world, including from America.

And during the Sunday conference or Saturday conference—one of the weekend conference dates—we heard that some of our staff had been arrested in Tampa in relation to drugs.

I assure you that 90 percent if not 95 percent of us were shocked because, first: we didn't know about drugs and drugs was never in our banking term, we didn't know or understand what this money laundering was. These are all events that we have learned very intimately within the last 4 or 5 years. Prior to that it was not even a subject which ever was discussed at any conference or any discussion or any small meeting that I have been there.

The rationale that was given to us of the episode was that a very young officer who had never in banking but was related to Mr. Akbar in Grand Cayman had been holding a green card here doing odd jobs, had tried to enter BCC in Miami, had not succeeded, and he was taken by Mr. Akbar and put in Panama directly.

Now here you have a totally raw man entering banking directly under an overview of one of his relatives who is—happens to be in Grand Cayman. And in Panama——

Senator KERRY. This is the same Mr. Akbar who had invested money in the commodities loss?

Mr. RAHMAN. No, that is—that's a different Akbar. Mr. S.M. Akbar. He is a completely different man.

Senator KERRY. Completely different.

Mr. RAHMAN. A different man. He is in charge of Grand Cayman operations. He was based in Grand Cayman.

Senator KERRY. All right. Fine. And the Mr. Akbar that you refer to who invested the money in the commodities——

Mr. RAHMAN. Yes, sir.

Senator KERRY. Did that Mr. Akbar personally profit from BCCI's $400 million loss?

Mr. RAHMAN. Well, the more I looked into it, the more incredible it appeared that the transactions that were being booked had no commercial sense and they were literally going way out of the market direction and expectations. And the further out of the market you go, the bigger is the premium that you receive.

And he was taking positions on silver and on 20-year bonds, suggesting that 20-year bonds would be 7 percent or 6.8 percent, and things like that, which anybody who understands treasury knows how deeply discounted it would be if you project that sort of thing for 20 years. And yet he was taking those sort of positions for a premium.

Senator KERRY. Did Mr. Naqvi profit from the loss?

Mr. RAHMAN. Somebody has profited a lot. Somebody has profited, and since only two, three people are involved, I—I can only allude.

Senator KERRY. Was Mr. Akbar fired after he lost the $400 million?

Mr. RAHMAN. He was released. Fired suggests a very serious term, but he was released gently. And as far as I know, he even took his company car and other benefits. Later on his company was even given a credit line. Capcom was given an official credit line.

Senator KERRY. So he went to Capcom. But Capcom was a piece of the bank, was it not?

Mr. RAHMAN. Capcom was a separate trading—brokerage company set up by——

Senator KERRY. Set up by the bank.

Mr. RAHMAN. By Mr. Khalil and Mr. Akbar—by Mr. Ziauddin Akbar and others. So he was a shareholder. He then declared himself to be an official shareholder of Capcom.

Senator KERRY. And he continued with Capcom after formally leaving his association with the bank?

Mr. RAHMAN. Yes, he went straight there.

Senator KERRY. And what did you learn later about Capcom?

Mr. RAHMAN. Well, to start with, it was quite clear that many of the transactions which the bank was apparently doing was being routed through Capcom, who obviously was scaling out the differentials, or much of the differentials themselves and passing on the heavy losses and things to the bank.

Senator KERRY. So they could pass on the loss and wind up taking off profit?

Mr. RAHMAN. Yes.

Senator KERRY. How many people were involved in this sort of side angle of the bank?

Mr. RAHMAN. Not more than three or four.

Senator KERRY. And who were the three or four?

Mr. RAHMAN. I can't recall the names. They were so junior. Only Mr. Akbar himself is the senior man.

Senator KERRY. So this is separate from the other major loss transactions in which some principals in the bank played a role?

Mr. RAHMAN. Yes. This is a treasury-related loss only.

Senator KERRY. Treasury only. Well, treasury-related in that that was the business it was involved in. But clearly if people were taking insider positions, and taking profit on the bank's—on the positions they were putting the banks in, that's not just a treasury loss. That is a different kind of loss, is it not?

Mr. RAHMAN. Well, all that Ziauddin Akbar created was in terms of losses related to trading or fund placement, fund movement, which was made available to him, totalled about $4 or $5 billion.

Senator KERRY. $4 or $5 billion?

Mr. RAHMAN. $4 or $5 billion was in it. But the bulk of it as I said was in Government bonds and cash.

Senator KERRY. Now, did Capcom wind up involved in money laundering?

Mr. RAHMAN. Yes, sir.

Senator KERRY. It did.

Mr. RAHMAN. Yes, sir. Coming to this 1988 episode, the explanation which was circulated to us and around the world to BCC was that this young officer with no banking experience thinking that banking is deposit-taking only was approached for a few million in deposits and—by some drug dealers.

And he didn't mind at all, and he did sort of started taking it. And then when the figure became slightly bigger, then he went to his counterpart in Miami and said, look, you know, I have a client who can put some more money in. And that's where Mr. Amjad Awan came in, and Mr. Bilgrami.

Until the end, I have never been able to find out whether Mr. Shafi ever got to know about it because, according to Mr. Shafi, when the client was first referred to him, he got a proper reference from a Miami bank about the client and the reference that he received was very, very good, from one of the Miami banks. And it was only after that that he officially started any dealing with this gentleman who himself was a Customs agent, who was pretending to be a drug money launderer.

Senator KERRY. So the bottomline is that the bank wound up with this money-laundering case.

Mr. RAHMAN. Yes, sir.

Senator KERRY. You say you personally were surprised by it.

Mr. RAHMAN. A lot of us. Not me only but a lot of other executives from other parts of the world. They were a bit——

Senator KERRY. As a result of that, you anticipated that the bank was going to have some problems, correct, because you saw a case coming down the road?

Mr. Rahman. Yes. What we did is we appointed Price Waterhouse and others to have a quick look at the operations procedures to see the weakness. And we appointed very big law firms to try and unwind this case.

Senator KERRY. What law firms were appointed to unwind the case?

Mr. RAHMAN. Originally it was a Miami-based law firm. But subsequently, soon afterward, it was Mr. Clark Clifford's firm.

Senator KERRY. Now, Price Waterhouse in November submitted an interim report, did it not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Was that interim report a standard report that Price Waterhouse was——

Mr. RAHMAN. Every year—as I explained, they have two audits, one September-based and one December-based. And at the end of the September-based audit, they prepare an interim report for the directors, which they present to a committee of the directors called the Audit Committee. This is made up of two of the directors.

Senator KERRY. Now this is document No. 1 to which we have referred?

Mr. RAHMAN. Yes.

Senator KERRY. Which is a November 17, 1989, document.

Mr. RAHMAN. Yes.

Senator KERRY. And in this document, Price Waterhouse did a review of operations of the bank in 1989.

Mr. RAHMAN. Yes.

Senator KERRY. And in 1989, Price Waterhouse submitted that interim report to you, in which it basically found no major problems. Is that accurate?

Mr. RAHMAN. No major problem. For years on end they used to report on the growing concentration of some of the advances to some parties. There were about 15 parties who were having a very large concentration of credit. And they used to raise these points.

Senator KERRY. On credit, they did say, we remain concerned about the adequacy of provisions held against accounts which are not meeting principal and interest repayment schedules. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. But that was one small paragraph.

Mr. RAHMAN. Yes.

Senator KERRY. Not a major red flag.

Mr. RAHMAN. And that even in relation to these bigger accounts because the normal provision exercise was very extensive throughout the world.

Senator KERRY. Now, with respect to this report, in paragraph 73, Price Waterhouse referred to regulatory compliance and control issues, section 7. And paragraph 73 says:

U.S. litigation. The bank's defense lawyers have informed us that the Florida trial is expected to begin on January 15, 1990, and last for 3 to 6 months. The lawyers will attempt to come to a pretrial settlement with the prosecution but the lawyers do not expect the prosecution to be amendable. As such there is now a real prospect of a trial.

This is November 17, 1989. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. So you were all anticipating a trial based on what Price Waterhouse had said and the lawyers had said to them. Correct?

Mr. RAHMAN. That was the belief in the bank that we were arguing for the case. It was never expected to be otherwise.

Senator KERRY. Do you have any idea what changed between November and January or even earlier, in December, when the agreement was reached to have a plea?

Mr. RAHMAN. No.

Senator KERRY. You have no idea?

Mr. RAHMAN. In fact, it surprised all of us because we just thought it to be fought because we were told by the lawyers that this is a unique situation, that a few staff doing something like this could involve the whole company and this law is not applicable anywhere except the United States. And we thought we would contest this. So the settlement was a big surprise.

Senator KERRY. Now, I want to try to get through. I think we are going to break for lunch before we get into First American because it gets complicated and I think it is hard for people to follow. But I would like to finish with respect to the—couple of areas.

No. 1, once the plea took place, what then happened in terms of the bank activities?

Mr. RAHMAN. As far as the U.S. end was concerned, we had asked Price Waterhouse and a special team of the inspection department, internal inspection, to try and improve the operating standards in U.S.A. And indeed we had an agreement with the authorities here to meet certain minimum standards and there were special teams set up for that.

Senator KERRY. Now at this point in time, people were beginning to take note of General Noriega? There was a lot of talk about money laundering. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. BCCI was under some fire, was it not?

Mr. RAHMAN. Yes.

Senator KERRY. Articles were appearing in the newspaper. Accurate?

Mr. RAHMAN. Yes.

Senator KERRY. And attention had been called to the way in which BCCI was operating?

Mr. RAHMAN. Yes.

Senator KERRY. So is it not true that at that point in time within the bank, Price Waterhouse came back a few months later with a subsequent report. Is that correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Now, early in 1990, around March 1991 in a strictly private, confidential report, that is 5 months after the report that said nothing was wrong, they came back with another report in which every red flag in the world was flying. Is that correct?

Mr. RAHMAN. Right.

Senator KERRY. What prompted that report to be made?

Mr. RAHMAN. As I explained that the annual process of audit is well laid down for the last 17, 18 years. Each year the interim audit takes place and then the final audit takes place. The final audit for the whole world finishes latest by mid-February or late-February. And then within 1 week of that, the audit of Grand Cayman.

The Grand Cayman audit was a very, very special audit because we knew that many of the problem situations were in Grand Cayman.

Senator KERRY. How did you know that? You knew at this time Grand Cayman was a problem?

Mr. RAHMAN. Yes.

Senator KERRY. You personally had come to know that?

Mr. RAHMAN. Yes, because it was known that all the large credits had been concentrated there. A large part of the CCAH loan was concentrated there.

Senator KERRY. CCAH was the American——

Mr. RAHMAN. The First American loans—related loans. And also some doubtful debts from other parts of the world which were quite large were sent to Grand Cayman for sort of hospitable treatment and for carefully looking after.

Senator KERRY. So Grand Cayman became the repository of bad debt and bad loans. Was ICIC that depository?

Mr. RAHMAN. No. ICIC was the parallel organization, as I mentioned. That ICIC Holding was only meant to hold shares of the bank for the founder group. But along the way somewhere, they decided to start a bank of their own. ICIC Bank.

Senator KERRY. ICIC bank became a bank within the bank?

Mr. RAHMAN. And they started diverting deposits of the main bank into its own books until it grew to about $600 million in deposits. And this ICIC group was in fact audited again by Price Waterhouse. So it was not an unaudited set of figures or accounts. Every year Price Waterhouse was auditing.

Senator KERRY. Well, what did this audit mean? If the deposits were siphoned off from the deposits of BCCI into a separate banking entity, how was that reflected on BCCI's accounts?

Mr. RAHMAN. Well, in BCCI's account, it never came on the books at all.

Senator KERRY. Never got to the books?

Mr. RAHMAN. Never got to the books. The client may or may not even know where in BCCI it is. He thinks it is in BCC. But it was booked in the books of ICIC, which was a small private bank.

And apparent rationale given to the auditors, which I later found out from Price Waterhouse, was that these are very confidential accounts of very high net worth people who preferred total secrecy and they did not rely on the level of secrecy of BCC because quite young officers were in many branches, et cetera. So on that plea, the deposits continued to be put into this bank.

Senator KERRY. But is it not accurate that a lot of these high net worth people that you are talking about were in effect fronts?

Mr. RAHMAN. Well, some of the names of the depositors appeared to be genuine. I got to know about ICIC bank only as a result of my investigation.

Senator KERRY. As a result of your investigation.

Mr. RAHMAN. Prior to that, I had no idea of ICIC operations at all.

Senator KERRY. Now, your investigation came about after the Price Waterhouse second audit report——

Mr. RAHMAN. Yes, sir.

Senator KERRY [continuing]. Or the first one of 1990?

Mr. RAHMAN. Yes, sir. What happened is that in the usual process, the whole-world audit was completed in the month of February 1990. And I had closed the whole position of the BCC group in the usual manner, in an audited certified manner, except Grand Cayman. I was waiting for Grand Cayman to come in with their audit, which as I said had a two-tier audit, one from Price Waterhouse-Grand Cayman, and one from Price Waterhouse-London. So they had a two-tier audit for Grand Cayman. And that delayed the process in any case.

And so I was waiting for that and we had closed the position, and indeed my wife and family were planning to go on holiday the later part of March, April. And when I received a call on a weekend from Price Waterhouse saying that they wanted to meet me, the partners, and—I was a bit hesitant because I had been seeing all the partners throughout the last few months and I did not know what it was that they wanted to bring up.

Anyway, I went to their office and they produced for me a whole list of what they thought was irregularities, illegalities, and misuse of funds.

Senator KERRY. Now, the irregularities and problems that they put forward to you had been in existence for several prior years, had they not?

Mr. RAHMAN. Yes. All the names that they listed were names which had appeared in prior years.

Senator KERRY. Now, is it true that some of the names of these high roller people that you talked about, some were real names. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. Some were fronts?

Mr. RAHMAN. Some were fronts, obviously.

Senator KERRY. And the fronts included Adham? Mr. Adham. Is that correct?

Mr. RAHMAN. Kamal Adham has fairly high standing in the Middle East and he may have some resources, but the amount of lendings to him, which is about $350 odd million, was very, very high.

Senator KERRY. Very high. Never serviced, was it?

Mr. RAHMAN. I do not know how much of that would be recovered because quite a bit of it was for the First American Bank and some were for commercial business.

Senator KERRY. What about Mr. Faisal Fulaij?

Mr. RAHMAN. Faisal Fulaij was also a very simple man. He was chairman of the Kuwait Airways. And in that capacity, he had good standing, social standing, in Kuwait. But certainly he did not warrant $150 million worth of loan.

Senator KERRY. $150 million loan there. And Mr. Ghaith Pharaon?

Mr. RAHMAN. Again, Ghaith Pharaon had been in operation in the Middle East and America before we started having any association. And I am told that he got to know Mr. Abedi and Mr. Naqvi and somehow got associated in all that happened in the Americas.

Senator KERRY. And the loans outstanding were what?

Mr. RAHMAN. About the same. About $325 million, $350 million.

Senator KERRY. The capacity to service it?

Mr. RAHMAN. No.

Senator KERRY. Mr. Khalil?

Mr. RAHMAN. Khalil had over $150 million out. But he had stopped any relationship with the bank for 2 or 3 years.

Senator KERRY. To whatever degree he may or may not have been real. Right? We do not know.

Mr. RAHMAN. Yes. We do not know.

Senator KERRY. And Mohammad Hammoud?

Mr. RAHMAN. Hammoud was a businessman from Lebanon who a few of our executives knew from the days of United Bank being in Lebanon. Mr. Imtiaz Ahmed knew him and Mr. Vilayet Abedi, who was another executive. He is another Abedi. Vilayet Abedi. They knew him and introduced him to the bank and he became very close associate with the bank. He became a shareholder. He became a shareholder of——

Senator KERRY. How much money outstanding in loans?

Mr. RAHMAN. Hammoud would be again the same, about $120 to $125 million.

Senator KERRY. $125 million.

Mr. RAHMAN. Or maybe about $100 million. I don't know. Maybe.

Senator KERRY. Now is it not accurate that Mr. Hammoud was a fairly flexible front for BCCI?

Mr. RAHMAN. Well, since he seemed to know the most number of executives amongst the shareholders, he often used to meet these people privately and obviously agreed to various propositions put to him.

Senator KERRY. Was he or was he not fairly flexible with respect to his capacity to assume so-called share ownership of this entity or that entity?

Mr. RAHMAN. I would say—I would say yes.

Senator KERRY. Yes. All right.

Mr. RAHMAN. May I just say that in this area of credit, because credit is the risk area of the bank, again Bank America had established very, very stringent procedures. And the bank is full of manuals of credit laying down very detailed procedures for receiving, processing, approving credit.

Senator KERRY. And for many people, that happened. Correct?

Mr. RAHMAN. And in vast majority because the total number of credit cases were about 250, 1,000 cases. So we are talking of 10 cases here.

Senator KERRY. We are talking of 10 cases and of a pattern that grew because of this abuse on one side that bled the bank. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. It effectively destroyed the bank.

Mr. RAHMAN. Yes. And that's what we said in our findings, that had the credit process been anywhere near properly established, and if Price Waterhouse year after year had insisted that these procedures were established and processed, and the signing and the approval process, both at—there was the levels of process was at the branch you had a certain limit. At the region you had a certain limit. At the head office you had the lower credit committee limit and the high credit committee limit. And then you had the board limit. There were various levels of process which were established in the bank.

Senator KERRY. I understand these processes. No doubt if Price Waterhouse were here today, right now, and maybe they would want to be and will be at some time in the future, but I think that they would say, well, this was structured in a way that it kept it from us. I mean, this was the whole purpose of this secret structure. You had 10 people doing some secret stuff off to the side; we did not know what they were doing. What is your response to that?

Mr. RAHMAN. I think I'd like to be there when you ask them this because I am an expert finance man myself and I've been in auditing myself.

Senator KERRY. Well, how did you miss it? You were the chief financial officer since——

Mr. RAHMAN. I explain to you——

Senator KERRY. They would say that to you.

Mr. RAHMAN. No. Because the process which they know very well also was that I was receiving certified accounts when names never appeared—names were of no concern to me. If the total advance is $42 million, I don't want to know if it is 480 accounts or 4,000 accounts. We got total figures for the balance sheet and profit and loss statements.

Senator KERRY. And it was not until you began your investigation——

Mr. RAHMAN. Yes.

Senator KERRY [continuing]. That you began to see what was really happening.

Mr. RAHMAN. Yes. When I saw the underlying—some of the underlying files and all, I began to see.

Senator KERRY. Now that began in 1990?

Mr. RAHMAN. 1990. That's when——

Senator KERRY. In the spring of 1990.

Mr. RAHMAN. In the spring. They presented this list of huge problems whose potential loss could be $1 billion, plus. So I said I would not receive a casual presentation like this from the partners. You make the same presentation to the chief executive and to the board.

So this was arranged and some of the board members were approached and a meeting took place jointly. And the board wanted to know—they were also very upset—but the board wanted to know what to do with this, so late in the day. It was entering the middle of March practically.

They said they only thing before we go to the regulator—that's Bank of England in Luxembourg—is that we can allow you to have an inquiry of your own from all our findings, and come up with your interpretation and facts.

Senator KERRY. So they went to you because they trusted you.

Mr. RAHMAN. They said the only man we will trust to do that is Mr. Masihur Rahman. So they made me chairman of the committee. And three other executives from the field who had recently come to London, they were made committee members.

Senator KERRY. So it was no secret that at this point in time things were beginning to crumble a bit around BCCI, is that not fair to say?

Mr. RAHMAN. Yes.

Senator KERRY. And at this point in time, suddenly Price Waterhouse discovers that there is all kinds of absence of critical information, that the reliability of management representations are in question, that evidence of recoverability is significant. They do not think they can get most of these loans back. That there is absence of critical information in a whole series of other loans. No loan agreements with a customer. Drawdowns of $18 million have not been supported by written request. No valuation provided in respect to the properties. No legal basis for the security. No independent net worth statements.

Suddenly they discover that they cannot confirm the net worth of Mr. Adham. They cannot confirm—these were things that were all sitting all out there, were they not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. What is your reaction to this kind of stunning document to suddenly appear 5 months after they certified that everything is going along pretty hunky-dory?

Mr. RAHMAN. As I said, I had not even recovered from the mishaps and casualness in 1985, 1986 when we were confronted with yet another disaster of this size. I was very, very upset, and I said you have used the word management 38 times in this book. I want you to define management to me. Who is this management and whose word you went casually through so many dangerous, disastrous accounts without going through the process and you been certifying.

So they would not answer that. I said the maximum it would be with Mr. Abedi, Mr. Naqvi, and the head of credit and the head of the credit committee.

Senator KERRY. Four people.

Mr. RAHMAN. Four or five people.

Senator KERRY. That was what you say was management at that point?

Mr. RAHMAN. And I said there are 100 executives in the bank. There are 14,000 employees in the bank, and they are all going to sink around this. And you are so casually saying, management, management, management.

Senator KERRY. I think this is a good place for us to take a break. I think we would have to come back to discuss ICIC, the inside bank, the First American link and ties. And I think we will be able to wrap that up. So we will stand in recess until the hour of 2 p.m.

[Whereupon, at 12:25 p.m., the subcommittee adjourned, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

The subcommittee met, pursuant to notice, at 2:01 p.m., in room SD-419, Dirksen Office Building, Hon. John Kerry (chairman of the subcommittee) presiding.

Present: Senator Kerry.

Senator KERRY. The hearing of the Subcommittee on Foreign Relations will come to order.

Mr. Rahman, I just remind you that you remain sworn as you were this morning. Let me just say a word, if I may, about that.

We talked about it previously before you testified, so you are certainly aware of it, but I just want to make it on the record that I explained to you, as a British citizen, that the purpose of the taking of the oath is to guarantee, No. 1, that you are on notice to tell the truth and the whole truth, and No. 2, because it subjects any witness that testifies here to the pains and penalties of perjury if they are not in fact truthful, or if at a subsequent time they are proven to be less than truthful.

I just wanted to make sure you understand that for the record, do you not?

Mr. RAHMAN. Yes, I do.

Senator KERRY. It is very important, needless to say, because these are on-going proceedings and other people will testify down the road, some of whom may have a different version of what you've testified to, and so forth.

Now, one of the questions that arises, which is the normal question, I think, for somebody to ask, and I pose it to you, is how it is that you could be the "chief financial officer" from the very beginning of this bank—you start in 1974 formally with the bank, and up through the 1980's and tremendous growth you are the chief financial officer, year after year of audits and so forth.

Suddenly you get to 1985, and there are very significant losses which wipe out the capital of the bank—wipe it out. That is effectively hidden, and you, as chief financial officer, are not aware of this until you conduct an investigation once you've been flagged by Price, Waterhouse, as late as 1990—5 years later, correct?

Mr. RAHMAN. No. The Treasury losses were flagged in 1986.

Senator KERRY. The Treasury losses were flagged in 1986; 4 years later you have your investigation in 1990?

Mr. RAHMAN. Yes.

Senator KERRY. Can you help us to understand that? How could you, as chief financial officer, not be aware of this kind of loss and of what the bank was engaged in?

Mr. RAHMAN. The Treasury losses were the first major loss of the bank, and that was investigated and identified by Price, Waterhouse and reported to me in January 1986.

Senator KERRY. So you knew about it right then?

Mr. RAHMAN. Yes, of course, and indeed, I sent two or three of my departmental people to have a joint review of what had happened in Treasury. As I explained to you, the board had approved the formation of a Treasury Department and here again, the board nominated certain people to the Treasury Committee but did not nominate me on the Treasury Committee.

Senator KERRY. Who was on the Treasury Committee?

Mr. RAHMAN. Relatively very junior people. Mr. Hafeez, who was from Secretary of the Board, and Mr. Naqvi himself, and Mr. Alauddin Sheik who was from marketing.

Senator KERRY. Well, what did this board do?

Mr. RAHMAN. The Treasury Committee was required to overview the working of the Treasury Department and the results of the Treasury Department every month. That was what they were supposed to be doing, and it was because through 1982, 1983, 1984 and half of 1985 no problems had been reported in Treasury, and it was presumed that the bulk of the moneys were in good assets either

with other banks or with U.S. bonds, so nobody visualized any problems with that. It was the first time.

Senator KERRY. But you knew you had lost the money.

Mr. RAHMAN. Yes, but the first time it came was in January when they said that we'd lost such a large amount of money.

Senator KERRY. OK, when you lost such a large amount of money and you knew that Mr. Akbar was responsible, correct—partly responsible?

Mr. RAHMAN. Yes.

Senator KERRY. Why was Mr. Akbar not reported to authorities. Why was there no measure taken then?

Mr. RAHMAN. He was sacked. He was released.

Senator KERRY. Well, as you said earlier, he was gently released.

Mr. RAHMAN. Well, I don't know whether criminal action should have been taken on him, but he was at least——

Senator KERRY. Did anybody recommend it?

Mr. RAHMAN. No. Neither Price, Waterhouse nor the board nor anybody recommended it.

Senator KERRY. Was that because it was easier to keep him quiet?

Mr. RAHMAN. Yes, possible.

Senator KERRY. Let's be more precise about that. At a later date in 1988 our investigator from this committee, Mr. Jack Blum, tried to sit down with Mr. Akbar and they had an original meeting. Subsequent to that, Mr. Akbar was paid some $30 million, was he not, by the bank?

Mr. RAHMAN. I didn't know about it at all. I read about it in the paper only recently. I had no idea.

Senator KERRY. But you have since then learned that he was paid a significant sum of money?

Mr. RAHMAN. Yes, I have since learned.

Senator KERRY. For what?

Mr. RAHMAN. Obviously, as I said when I saw the nature of the transactions, I mean they were obviously out-of-the-market transactions, obviously premium-driven transactions, and we wanted to know who were benefiting. I mean, whether Capcom would benefit.

Senator KERRY. Well, how did you as chief financial officer not know that he was paid $30 million?

Mr. RAHMAN. It was never paid through any source that I know.

Senator KERRY. No source through the bank that you're aware of?

Mr. RAHMAN. None. I don't know from where. It could have been paid from the ICIC bank, or ICIC other sources.

Senator KERRY. You were specifically not a trustee of ICIC, correct?

Mr. RAHMAN. I was not a trustee of ICIC.

Senator KERRY. So you were kept apart from ICIC?

Mr. RAHMAN. Yes.

Senator KERRY. Now, you talked earlier about the compartmentalization of the bank.

Mr. RAHMAN. Yes.

Senator KERRY. Was that compartmentalization a way to keep—did it have the effect of keeping you in the dark with respect to things that were happening?

Mr. RAHMAN. Yes. The fact that I was not made a trustee of the ICIC, nor I was brought on the Treasury Committee, whereas I was trustee in the provident fund of the bank, showed that there may have been motives of Mr. Abedi, Mr. Naqvi and others to keep me outside, because they knew me to be a professional and I would be objecting to these things, and they kept me as the good face of BCCI to present the operation clearly.

Senator KERRY. You personally never undertook audits yourself, or field visits yourself?

Mr. RAHMAN. No.

Senator KERRY. None.

Mr. RAHMAN. None. I had responsibility for three locations. I was to visit those three locations.

Senator KERRY. What three locations?

Mr. RAHMAN. That was Ghana, Egypt, and Spain. I was one of the directors. There were other directors, but I was one of the directors of those three banks.

Senator KERRY. What were your responsibilities in Ghana, Egypt, and Spain?

Mr. RAHMAN. To become a director of each of these three banks, then of course you have an overriding responsibility for its operation, so these were to meet monthly to get updated reports of what was going on in the bank to get to know the operation much more than what I was getting as chief financial officer, getting financial statements only.

Senator KERRY. Now, is it your knowledge today that based on your investigation, that this bank was involved in illegal activities that you were not aware of at the time you were there?

Mr. RAHMAN. Yes.

Senator KERRY. Did you learn that as a cause of your investigation, as a result of it?

Mr. RAHMAN. Yes.

Senator KERRY. That investigation you initiated in 1990?

Mr. RAHMAN. Yes.

Senator KERRY. Did you read the story this morning in the Washington Post about a Columbian bank being bought by BCCI?

Mr. RAHMAN. BCCI's purchase of a Columbian bank was from a French bank and it was deemed like, from our point of view, as a normal acquisition. It was not deemed anything——

Senator KERRY. Well, it was a normal acquisition, but let's face it, when you take deposits in places like Medellin, people know what those deposits are coming from, don't they, when they are in U.S. dollars?

Mr. RAHMAN. As I said that, till 1988 drug matter—no drug-related subject was ever discussed, nor we understood any consequences of it.

Senator KERRY. I understand it wasn't discussed, Mr. Rahman, but I'm saying to you that when a bank is bought in 1985 or 1986 in Columbia and that bank shows huge amounts of American dollars coming through it, correct?

Mr. RAHMAN. Yes.

Senator KERRY. It is fair to assume the people who bought it or who were there understood where those dollars were coming from,

would they not? What other trade comes out of Medellin? How many dollars pass through Medellin?

Mr. RAHMAN. I only learn Medellin subsequent to all of these drug cases. I don't know Columbia well. I don't know my geography to that extent or even the economy of Columbia that well to know—it's only in consequence of drug-related matters that we found out that Columbia is deemed to be such a big country for drugs. Honestly speaking, till then, we didn't——

Senator KERRY. Till when?

Mr. RAHMAN. Well, the 1988 drug case.

Senator KERRY. In the drug case?

Mr. RAHMAN. Yes. That's the first time that we even understood that Columbia had any consequence in terms of this.

Senator KERRY. When you say "we" who do you mean?

Mr. RAHMAN. Many senior executives.

Senator KERRY. Many senior executives in London?

Mr. RAHMAN. In London and abroad, in Far East and Middle East.

Senator KERRY. But it is fair—I mean, you don't know, I realize, maybe personally, but the people who were in Columbia managing this would know where that money was coming from, would they not?

Mr. RAHMAN. Yes, they would know.

Senator KERRY. I would assume that a man of Mr. Abedi's world traveling and knowledge—and obviously this is an assumption, and I only state it as such but I think it ought to be on the record, nevertheless—ought to have a pretty good idea of what dollars are moving through places like Cali, Medellin, and so forth. Is that not fair?

Mr. RAHMAN. Yes, I think it's fair.

Senator KERRY. Now, let's get to the sort of heart of this matter and to some of the large issues on the table right now. In 1990, you did an investigation. You discovered massive fraud, is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. Would you describe to the committee what the fraud was that you discovered, who was involved, and what were the amounts of fraud that you came across personally?

Mr. RAHMAN. Basically, there are three types.

Senator KERRY. Do you want to refer to your report here? That's now a matter of the public record.

Mr. RAHMAN. Basically, what Price, Waterhouse did is they identified three types of irregularities that they have found.

Senator KERRY. Now your report is document 6, correct, Findings of the Task Force?

Mr. RAHMAN. Yes.

Senator KERRY. Now, in your task force report you laid out only those areas of fraud which had been raised by Price, Waterhouse, is that correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. You did not inquire behind or beyond the Price, Waterhouse accusations, correct?

Mr. RAHMAN. Yes.

Senator KERRY. The Price, Waterhouse accusations and the issues you investigated were what, specifically?

Mr. RAHMAN. As I mentioned, they covered three broad areas. One was the very large loans given to shareholders in relation to CCAH and First American, and that had reached about $860 million.

Primarily, the concern expressed by Price, Waterhouse was that the underlying security, which is the First American Bank, wouldn't cover for all these loans and the interest and service charges made had built up the loan to this very large figure and they think the bank faced up to $200 million loss if those shares were to be sold or encashed.

So even at this late stage the direction which Price, Waterhouse is leading us to was not so much illegality as much as loss, commercial loss from bad advances.

Senator KERRY. Were you concerned about a question of illegality?

Mr. RAHMAN. Well, when we looked at some of the papers we divided the work amongst the four of us, and one of the executives who was required to look at the CCAH matter, he is to report back daily—we were to meet after we spread out because there's so many items to look at and we had only 3, 4, 5 weeks before we closed.

So he reported back that all the files he saw had very, very scanty papers.

Senator KERRY. Very, very what?

Mr. RAHMAN. Scanty—very few papers, and very few letters, authorities, but there were signed shares lying in custody at the bank, and most importantly——

Senator KERRY. Whose shares? Who were the shareholders?

Mr. RAHMAN. There were about seven, eight shareholders who are listed.

Senator KERRY. Are they stated in the report?

Mr. RAHMAN. Yes, they are stated in the report.

Senator KERRY. Do you want to read them?

Mr. RAHMAN. They included the ruler of Fujairah, which is in U.E., the ruler of Ajman, Faisal Fulaij Shorofa is from Saudi Arabia, A. R. Khalil from Saudi Arabia, Kemal Adham who is from Saudi Arabia, and two companies belonging to Hammoud, who's from Lebanon, and A. R. Khalil who's Saudi Arabia. So about six, seven, eight names.

Senator KERRY. These were the shareholders of CCAH?

Mr. RAHMAN. Yes.

Senator KERRY. Found by you to be the true owners of First American?

Mr. RAHMAN. Well, the documents were so scanty, the authorizations and request letters were so scanty, and the fact that there were blank transfer shares lying in custody of the bank and that during the previous year a very large amount had been sent by BCCI to First American, being subscription toward new rights issues——

Senator KERRY. How much money was sent?

Mr. RAHMAN. I think the total amount that was lying at the time when we looked at it unadjusted was about $40 million, but I think more money went than that, and normally in a rights issue the shareholders first subscribe and then it is given to the bank, the

bank receives it, but in this case BCCI had sent block amount of money to First America toward this rights subscription.

Senator KERRY. With no allocation to shareholders?

Mr. RAHMAN. No allocation.

Senator KERRY. That was unusual.

Mr. RAHMAN. It's very, very unusual in terms of a rights issue, so looking at all of these underlying documents and lack of underlying documents and papers, we concluded that there is every possibility that the banks—that these were nominee shareholders and we therefore recommended that immediately this bank should be sold to some group or some foreign entity or even to an American bank or to an investment authority, somebody who would buy over the whole bank and pay off these loans.

Senator KERRY. The idea was that you felt as a result of your findings that BCCI, an apparent holding company, needed to divest of the CCAH shares?

Mr. RAHMAN. Yes.

Senator KERRY. Because there was in effect an ownership holding, or at least according to you?

Mr. RAHMAN. I think that it was very obvious that these people were not servicing the loans and the amounts were building up.

Senator KERRY. How much were the amounts of the loans?

Mr. RAHMAN. The total amount had built up to $856 million by end December.

Senator KERRY. $856 million was not being serviced?

Mr. RAHMAN. Not being serviced.

Senator KERRY. Not being serviced by whom?

Mr. RAHMAN. By the named borrowers.

Senator KERRY. The named borrowers to CCAH?

Mr. RAHMAN. For the CCAH investment.

Senator KERRY. Those were the ones you listed earlier?

Mr. RAHMAN. Yes, just listed, and indeed, two of them—the ruler of Fujairah and the ruler of Ajman, had even returned letters from Price, Waterhouse saying that they don't own these——

Senator KERRY. They said they don't own the shares.

Mr. RAHMAN. They don't have these loans.

Senator KERRY. What else did you find with respect to First American?

Mr. RAHMAN. Well, it was one of the easier things to conclude in view of the lack of paper, and once we had made that recommendation that we unwind that forthwith, and we were informed that indeed Goldman, Sachs had been appointed to try and find a valuation and a buyer.

Senator KERRY. When was that appointment made?

Mr. RAHMAN. I think late in 1989.

Senator KERRY. Now, with respect to the First American shares, was there some talk of a reverse divestiture in that First American might somehow think of buying out BCCI?

Mr. RAHMAN. I don't think it was seriously discussed as a strategy, but in passing people—you know, Mr. Naqvi mentioned, well, that perhaps it will be better if they buy us.

Senator KERRY. What was the purpose of that, to clear up the ownership issue?

Mr. RAHMAN. Yes, to clear up the ownership issue. It would mean that the whole of the BCCI group would then have a home in America, effectively, instead of Luxembourg.

Senator KERRY. Now, what was the second area of inquiry?

Mr. RAHMAN. The second one was in relation to this bank within a bank. That was a very, very serious case in the sense that first it shocked me that an ICIC foundation which was supposed to be our savings and our shareholding in the bank had now gone into this type of diversionary activity, including banking—private banking.

Senator KERRY. What do you mean by "diversionary activity"?

Mr. RAHMAN. This was not supposed to be the purpose of ICIC holding, to run a bank or to start business of this type, or to take moneys, so it was done no doubt with the help of the trustees who I've listed separately, and they started a bank in which they are genuine directors——

Senator KERRY. Well, what did this bank do? Did it do normal banking?

Mr. RAHMAN. It did no normal banking at all.

Senator KERRY. No normal banking?

Mr. RAHMAN. None at all.

Senator KERRY. What did it do?

Mr. RAHMAN. It just absorbed and received moneys.

Senator KERRY. Where did the money come from?

Mr. RAHMAN. From what would have been BCCI depositors.

Senator KERRY. Any other location?

Mr. RAHMAN. Well, quite a lot from the Middle East, some from London, some from Cameroon.

Senator KERRY. In the form of deposits or capital investment?

Mr. RAHMAN. No, in the form of deposits.

Senator KERRY. Deposits?

Mr. RAHMAN. In the form of deposits, yes.

Senator KERRY. Was this money laundering?

Mr. RAHMAN. No. They were genuine deposits of high net worth people, or institutions—Islamic banks.

Senator KERRY. Coming under what guise?

Mr. RAHMAN. I presume the clients would have felt that they had put the money with the BCCI group, and so not really——

Senator KERRY. So you were surprised to find that ICIC was in fact engaged in banking on a competitive and parallel track to BCCI itself. Is that accurate?

Mr. RAHMAN. Yes, sir, but not only that, but the purpose and the use of the money was so irregular that it wasn't even commercial banking.

Senator KERRY. What was it?

Mr. RAHMAN. Out of the $550 or $600 million, maybe about $320 million had been given to the same shareholders, BCCI shareholders, nominee shareholders, to buy BCCI shares. So effectively it was insider trading and funding in the purchase of one's own shares.

Senator KERRY. Now, give us a sense of the outstanding shares—of the outstanding loans that you came cross in that investigation of ICIC. What was the exposure?

Mr. RAHMAN. The total balance sheet was about $520 million. The total advances was about $480 million.

Senator KERRY. Who were the advances to?

Mr. RAHMAN. As I said, about $300-odd million, $320 million was for buying shares of BCCI. Over and above that, there were some other loan including to Ghaith Pharaon, about $28 million, and there were some loans to the hospital, to the IMC hospital project, and so on and so forth.

Senator KERRY. So let's understand this. Now, you first find, issue one, First American, and the loans outstanding that aren't paid and the front people?

Mr. RAHMAN. Yes.

Senator KERRY. The second thing you find is a second front operation scam with a parallel bank?

Mr. RAHMAN. Yes.

Senator KERRY. $527 million outstanding?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Then there's a third amount of money from BCCI itself, correct, in problem loans?

Mr. RAHMAN. That will come as the third item. Coming to the second one, I had never seen the balance sheet of this bank.

Senator KERRY. Ever?

Mr. RAHMAN. Ever. This is the first time I saw the balance sheet, and I was horrified to find that Price, Waterhouse had been auditing this bank like a regular audit, outside of BCCI audit, and they had been certifying this bank year after year.

Senator KERRY. But never certifying it to you as the chief financial officer of BCCI?

Mr. RAHMAN. Never certifying it to me because it's supposed to be outside the BCCI group, so it never came to me. I had to force them to give me this.

Senator KERRY. But you thought you were a shareholder of this group?

Mr. RAHMAN. I believed that.

Senator KERRY. Without shares?

Mr. RAHMAN. Without shares.

Senator KERRY. Without any paper?

Mr. RAHMAN. Without any paper.

Senator KERRY. Why would that be? I mean, the obvious question, somebody is going to sit here and scratch their head and say, hey, wait a minute. Here is a guy who is intelligent, a CPA, financial officer of a big bank working in a worldwide operation, major dealings, and he is sitting there supposedly an owner of something but he does not know anything about it.

And somebody is going to scratch their head and say it does not fit. Now, I know you have an answer for that, but help us make it fit, if it fits.

Mr. RAHMAN. If you first understand how we came as a group from Pakistan. Effectively we were leaving our country. We were going into a new domain.

Senator KERRY. Pull the microphone just a little closer to you. Thank you.

Mr. RAHMAN. And none of us had international expertise at that time. Abu Dhabi was the first sort of foreign country we were coming to. The office, I have pictures of it, was tiny little offices. And we are talking of a global bank and we are talking of share-

holding in this 2.5 million company, which did not have any operation.

So I do not think anybody was excited about documenting it. And we were believing in what Mr. Abedi was talking about as to the future of the bank and us being shareholders of this bank. And we left it. He would say that within 10 years, Mr. Rahman, we will be millionaires and then you will see. But of course such figures never came to my mind in those days.

So I don't think any of us went out—I mean, the fact that trustees were quietly set up and I was not a member, and I did not even get to know until later that I am not a trustee even, showed that we weren't even thinking in those lines. We were genuinely out to build a good bank—international bank.

Senator KERRY. And you trusted Mr. Abedi?

Mr. RAHMAN. And we trusted Mr. Naqvi and Mr. Abedi.

Senator KERRY. Now, you were about to describe the——

Mr. RAHMAN. Yes. So, when I saw this for the first time, and I have a copy of one sample accounts, and the auditors have certified and signed this year after year—Price Waterhouse. And in the certification, report of the audit, they've only mentioned customer deposits consist of confidential accounts which are not conducted as open accounts requiring periodic dispatch of statements. Furthermore, because of company policy we have not been able to confirm any deposit balances directly with the customers, and it was therefore not possible for our examination of such accounts to extend beyond the amounts recorded. In our opinion, except for the adjustment as above—so-so—the financial statements on page so and so give a true and fair view of the state of affairs of International Credit and Investment Co. overseas as of June 30, 1985.

I have never seen a certificate like this in my life. The first time in 1990 I saw such a certificate like this. And this has been going on for 5, 6, 8 years, with Price Waterhouse signature.

The assets side is made up of false loans, share purchased loans. So even the asset side is not logical.

So to me this was one of the biggest disaster that I came across, and it really made up my mind that I should leave the bank because it involved all my senior colleagues who were trustees of the company; involved the president, whom I respected; and Mr. Naqvi, whom I respected.

Senator KERRY. Did you in fact leave the bank then?

Mr. RAHMAN. I went and met the directors and I told the directors that I am duty bound to finish my job as chairman of this committee and immediately after that I would leave.

Senator KERRY. You did leave?

Mr. RAHMAN. I left immediately after that.

Senator KERRY. How soon after that was it?

Mr. RAHMAN. Well, I finished the report and the accounts, of the group came out in the third week of May into the market, and I immediately wanted release and they wanted me to hand over—on June 20, they asked me to hand over. And they put notice period on me, and I left on August 1.

This was the second stream.

Senator KERRY. This is the second issue, I realize. We are going to come to the third issue.

Now, you raised this question about the accounting practice. You had had a prior accountant involved with BCCI, Ernst & Young?

Mr. RAHMAN. Ernst & Young, yes.

Senator KERRY. Now, Ernst & Young quit at some point, did they not?

Mr. RAHMAN. Ernst & Young quit after the Treasury disaster which nearly closed the bank. And they insisted after that that either they be given the whole group or they'll resign.

Senator KERRY. Did that not send you a message? Here is a respected accounting firm that quits, that says we need to have the whole bank?

Mr. RAHMAN. I think that the single audit company concept was good.

Senator KERRY. But you chose the other company to do it.

Mr. RAHMAN. Yes. Mr. Abedi—I mean, my choice would certainly have been Ernst & Whinny. I was very, very disappointed with Price Waterhouse and the level of their work in the treasury and the casual manner that they lost over $400 million and walked away from this problem. And I personally favored Ernst & Young to be—become group auditors, including for Grand Cayman.

But Mr. Abedi insisted that it should be Price Waterhouse who should take over all the whole world.

Senator KERRY. Now, with respect to the second issue that you have just described, the ICIC bank-within-a-bank issue, which you found very serious, of major consequence.

Mr. RAHMAN. Yes.

Senator KERRY. Is there any other fact which you think the committee should know with respect to that?

Mr. RAHMAN. Well, the important thing was how does one salvage the situation. And our recommendation was that all the share loans and all should be unwound by selling the shares to Sheik Zayed or Sheik Kalifa, his family, and they should take over all of these loans. And once they take over all these loans, then the depositors should be paid back, whose ever it is, and the bank should be closed.

Senator KERRY. Your theory was it was a way to try to save the bank?

Mr.RAHMAN. Yes, sir.

Senator KERRY. But before that could be implemented, in point of fact, the Bank of England moved and shut down. Correct?

Mr. RAHMAN. Not, sir. This was—I am talking of 1990. The Bank of England shut down just now.

Senator KERRY. I am sorry. This is in 1990 you thought there was a way out.

Mr. RAHMAN. Yes. I recommended—this is in April 1990 that I was recommending this.

Senator KERRY. Let me just interrupt here for one point I meant to make at the beginning of the hearing. And that is that Mr. Rahman appears today with the full assent and understanding of and cooperation of the Lord Chancellor. And I think there was a little misunderstanding at the beginning of the hearing that somehow that Lord Chancellor had not desired or assented to that, and I just wanted to correct that and make sure the record shows that

he in fact assisted in permitting the order to be changed and that is why he is here.

Now, 1990, you are aware of this major, massive catastrophe. You have had one catastrophe in 1986 with $430 million down, all the capital of the bank wiped out. Now you are back, and then in 1988 you have the drug problem. And in 1990 now you have the second fraud that is facing you with another $500 million or so exposure. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. And it was your feeling that the bank could still be saved.

Mr. RAHMAN. The two—these two issues, the CCAH issue and this ICIC second bank, while illegal, irregular in many respect, but it's not commercially unsavable in the sense that if you sell off those shares and cash it in, then those cash could retrieve the position and you could pay back the depositors, retrieve the loan. So in a way, commercially it could be saved.

Senator KERRY. But commercially we are simply not restricted to the $500 million and to the question of $200 million under value in the shares of loans that are nonperforming with respect to CCAH. There is also a third issue here, correct, with millions of dollars outstanding on those? In fact, more than $1 billion.

Mr. RAHMAN. The third issue is one that which did maximum commercial damage to the bank. And it was equally illegal and irregular. And that was that that—there was a major client of the bank who had been with the bank from the early days of the bank, and that was a shipping group called the Gokal family, G-o-k-a-l. Gokal family. They had been steadily increasing their international business and shipping business. And there was a time when there was an article on them in the Time magazine that they had become one of the biggest shipowners, shipping trading people, in the world. So they were deemed very commercially good client, and the bank earned a lot of money from them in the early days.

But their limit, which was hardly about $300 million had been breached again and again until it was just over $400 million to a single group.

But more importantly, what we found in this investigation is that for the last 3, 4 years, no doubt under the guidance of Mr. Naqvi and with the knowledge of the credit people and the chief of credit, a whole series of companies were taken—shell companies were taken, and loans of $2, $3, $4 million——

Senator KERRY. A whole series of shell companies. These are fake companies.

Mr. RAHMAN. Well, you can buy—shell companies were registered company, but you can start operating under them.

Grand Cayman——

Senator KERRY. But it is all accounting games, correct?

Mr. RAHMAN. Yes. They are just namesake company, name companies.

Senator KERRY. A way to move money or hide it.

Mr. RAHMAN. Yes, you can use the name to move money, yes.

Senator KERRY. So large amounts, over 71 such companies had been established or acquired—shell companies—and they had been given loan after loan after loan. $3, $4, $2.5 million.

With no ability to repay? No documentation.

Mr. RAHMAN. Nothing which indicated——

Senator KERRY. No background material. No collateral. None of the normal standards of any kind of loan.

Mr. RAHMAN. The supposed explanation originally to the auditors was that there were various Asian clients who wanted to do some shipping trading business with the help of Gokals unofficially. So these are various Indian companies.

Senator KERRY. How much money do we have outstanding in these various companies?

Mr. RAHMAN. Just over $300 million.

Senator KERRY. $300 million. To whom?

Mr. RAHMAN. 71 companies.

Senator KERRY. $300 million to the 71 companies. But can you break down the other money outstanding?

Mr. RAHMAN. So the result is that now the Gokal came forward and accepted this because some of the monies went back to their companies. So the result was that the Gokals' total exposure loan became over $700 million.

So here the committee recommended an immediate provision of $200 million, and this creation of a separate department of expert shipping and trading people who would try to tackle the rest of the $500 million in a phased manner because they were a well-known corporation. And to try and scale it down, try to get other banks involved and syndicate some of the loans and work out a policy over 3, 4 years.

But we knew that another $200, $300 million would go from this.

Senator KERRY. But when you add the Gokal shipping group problem with the fake companies, and you add the outstanding CCAH nonperforming loans and you add the money to Ghaith Pharaon, and you add the money to Kamal Adham, you have over $2 billion. Correct?

Mr. RAHMAN. About $2 billion.

Senator KERRY. It has just sunk down a hole somewhere. Correct?

Mr. RAHMAN. Well, as I said, part of it, like the CCAH and First America had underlying value, could be sold. Similarly, the share loan $300, $400 million had value because those shares could be purchased by someone else. So I would say net losses would go to about $1 to $1.5 billion.

Senator KERRY. Now you found that false companies had been established in the Grand Caymans, Panama, Uruguay, Yemen.

Mr. RAHMAN. Yes.

Senator KERRY. Anywhere else?

Mr. RAHMAN. That's about it, yes. And Kuwait.

Senator KERRY. And Kuwait. Do you know what this money was used for?

Mr. RAHMAN. Unless one had many weeks to look at the—each transaction and each—because the money moved very quickly from bank to bank, and once it goes to third bank, you don't know where it goes from there. They won't give you the details.

Senator KERRY. So really, as you sit here now, you cannot tell us where a lot of this money went?

Mr. RAHMAN. Well, some of it went to the Gokal account. That is why we traced them back to Gokals and Gokals accepted it. A few of them went into other nonperforming accounts which we had said was centralized in Grand Cayman, and obviously to try and make look them more active, $1 or $3 million, things like that, but not very large amounts.

Senator KERRY. What did you learn about Kifco of Kuwait?

Mr. RAHMAN. Kifco of Kuwait, up to then, was only a small finance company in which the bank had 49 percent, and the Kuwait laws were deemed to be very strict in terms of secrecy, and therefore a local Kuwaiti audit firm used to audit it and discuss the findings with Price Waterhouse. Price Waterhouse did on several occasions want to go directly but they were told no, the Kuwait laws do not allow a non Kuwaiti company to operate.

Senator KERRY. Did you learn anything about its activities?

Mr. RAHMAN. During this time, we asked the auditor again to look through their statements and see if there any names which appeared to be from companies not local or regional, and that's when we found that another $40, $50, or $60 million of this $300 million was in Kuwait.

Senator KERRY. Was just hidden in Kuwait?

Mr. RAHMAN. In Kuwait's book, yes.

Senator KERRY. What did you learn about Mohammed Hammoud?

Mr. RAHMAN. Mohammed Hammoud, he was a medium-sized businessman, and he seemed to be very close to some of our executives. And he has been used obviously for taking loans and doing things.

Senator KERRY. He has been used for taking loans? He was a front man?

Mr. RAHMAN. He's definitely a front man.

Senator KERRY. And a flexible front man, moving from loan to loan.

Mr. RAHMAN. Yes. Because he was of a smaller size, it is easier to track him and——

Senator KERRY. Is he the man who purchased shares of CCAH?

Mr. RAHMAN. He was one of the people who's named as shareholder.

Senator KERRY. For First American?

Mr. RAHMAN. First American.

Senator KERRY. He purchased shares?

Mr. RAHMAN. Yes.

Senator KERRY. Did he purchase those from Mr. Altman or Mr. Clifford, do you know?

Mr. RAHMAN. I do not know that.

Senator KERRY. What did you learn about a company called Rubstone?

Mr. RAHMAN. There were two companies, Mid-Gulf and Rubstones, which were also on the list of people who received monies for CCAH loans. Initially Hammoud was denying he had anything——

Senator KERRY. Was Rubstone a Hammoud company?

Mr. RAHMAN. He was first denying but finally it was accepted that both of them belonged to the Hammoud.

Senator KERRY. Do you know what this company did?
Mr. RAHMAN. No, except that it had some loan for the CCHS.
Senator KERRY. It had loans from BCCI?
Mr. RAHMAN. From BCCI for CCAH.
Senator KERRY. But you never saw that until your investigation? You never knew this?
Mr. RAHMAN. No.
Senator KERRY. All right. Now, when you say that Rubstone had outstanding loans from BCCI, did Rubstone also have shares or some way of having ownership in First American?
Mr. RAHMAN. Well, the loan was shown to be for CCAH, for First American shares.
Senator KERRY. So the loan to Rubstone was shown to be for shares in First American?
Mr. RAHMAN. For shares in First America, yes.
Senator KERRY. The report show how many shares?
Mr. RAHMAN. No, it said that the amount was 15 million and for Mid-Gulf, 44 million.
Senator KERRY. Now, in the March 14 Price Waterhouse report as well as in your investigation, did you come to learn something about the gulf group?
Mr. RAHMAN. The Gulf group is the same as the Gokal group.
Senator KERRY. That is the Gokal group?
Mr. RAHMAN. That is the Gokal.
Senator KERRY. So the shipping losses under the gulf group represent the Gokal losses?
Mr. RAHMAN. The Gokal losses, yes.
Senator KERRY. Now, did regulators in other countries besides the United States raise questions about BCCI's activities before you departed from the bank?
Mr. RAHMAN. On some cases as I mentioned that there was a case in Sudan and there was a case in Kenya and a case in India.
Senator KERRY. Wasn't there a problem in Liberia?
Mr. RAHMAN. Also in Liberia, yes.
Senator KERRY. The problem there was black market foreign exchange transactions?
Mr. RAHMAN. Same. I mean, practically in all of these countries it was invariably the manager there doing some black marketing in currencies.
Senator KERRY. So BCCI's reputation came from its managers in these countries who were involved in black market operations?
Mr. RAHMAN. Whenever we inquired, invariably the country manager concerned was either removed or sacked even, and they would make out a case in there that the secondary market is fully operational in the country and buying and selling is going on and they've just become part of it.
Senator KERRY. There was also a problem in France. Correct?
Mr. RAHMAN. France one could be more filing of returns and things. I don't know.
Senator KERRY. Deposit files were not maintained? Credit files were not maintained? Reporting requirements were not met? Is that correct?
Mr. RAHMAN. We had a very senior Frenchman who took over that operation.

Senator KERRY. Well, that's not my question. My question is, is it not correct that the requirements were not met?

Mr. RAHMAN. Yes.

Senator KERRY. The deposits requirements were not met? The credit requirements were not met. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. So almost each country had its own set of banking irregularities. Now, did you become aware of any of those in the course of the auditing process or in the course of your own certifications as financial officer?

Mr. RAHMAN. I mean, it happened—these things didn't happen all at one time. It happened one year in one country, another year in another country. It would not recur once it had been investigated. So over the 18 years, we heard about seven or eight such cases in different——

Senator KERRY. Now, BCCI had a significant exposure from central banks of various countries, did it not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. It had $300 million to Nigeria?

Mr. RAHMAN. Yes, sir.

Senator KERRY. $15 million to Sri Lanka?

Mr. RAHMAN. Yes, sir.

Senator KERRY. $10 million to the U.S.S.R. through the Bank of Foreign Trade?

Mr. RAHMAN. Yes.

Senator KERRY. $50 million to State Bank of Poland?

Mr. RAHMAN. Yes.

Senator KERRY. $15 million, National Bank of Hungary?

Mr. RAHMAN. Yes.

Senator KERRY. $21.9 million, Central Bank of Syria.

Mr. RAHMAN. Yes.

Senator KERRY. $25 million, Central of Trinidad? $26.4 million to the Government of Cameroon. $3 million, Bank of Cuba. $11.8 million, Bank of Iraq. $8.5 million, Mexico. $30 million, Philippines. $20 million to the Sudan. $27.8 million to Zambia. $1.5 million to Bank of Sierra Leone. Is that accurate to your memory?

Mr. RAHMAN. Yes, yes. As far as my memory.

Senator KERRY. What was the significance of that?

Mr. RAHMAN. A bank which was active in international trade would invariably find some cross-country exposure arising out of their trade activity. And in many of those amounts, they are the result of trade activity. In one or two cases like in Philippines or in Nigeria, the amounts were specifically given as advance against future oil exports or future exports as a syndication loan to those countries.

Senator KERRY. Was it Mr. Abedi who directly dealt with the heads of these governments or the heads of these banks in securing these deposits?

Mr. RAHMAN. Not in all cases. If they arose out of commercial activity, Mr. Abedi would not be involved. In the Nigeria case, yes, because it was a very large single country fund allocation. It went to him, and it was approved by him.

But each of these cases go through the normal credit approval process, and the credit division is supposed to have an updated reg-

ister of defaults of those countries to see how much risk can be taken for each country and has to approve these limits.

Senator KERRY. Now, with respect to the—we are getting near the end here and I just want to try to tie up some loose ends if we can.

With respect to weapons trade, weapons were a commodity, were they not?

Mr. RAHMAN. Yes. As far as the letters of credit opened on any goods, the commodity would have to be spelled out on the letter of credit. So in the process of doing $18 billion worth of trade—I mean, I have not seen L.C's, but I presume it has all types of commodities from food and medicine, perhaps to arms also. But if it is through the letter of credit process, it would be a transaction which is a—officially they call it a L.C. transaction.

Senator KERRY. Did you know specifically, personally, about any arms transactions?

Mr. RAHMAN. No, sir.

Senator KERRY. None?

Mr. RAHMAN. None.

Senator KERRY. Does it surprise you now that you are reading in the newspaper about BCCI's link to certain arms transactions?

Mr. RAHMAN. Not really. I mean, not having seen the underlying composition of $18 billion. I mean, if—how many billion is being talked about, I don't know, but I suppose some of it could be for armament transactions also.

Senator KERRY. With respect to the lawyers who handled the plea bargain in Florida and who handled the drug case, how much were the lawyers paid over that 2-year period?

Mr. RAHMAN. Our total bill was between $35 and $40 million, if I recall right.

Senator KERRY. For 2 years of lawyering for a drug case?

Mr. RAHMAN. Yes.

Senator KERRY. $40 million?

Mr. RAHMAN. Yes.

Senator KERRY. The CIA has disclosed that it has used the BCCI fairly extensively and was gathering information. Was this use of the bank by an intelligence agency of either this country or any other country known to you during the time you were there?

Mr. RAHMAN. No, sir.

Senator KERRY. Nobody ever disclosed that fact to you? You had no knowledge of any dealings with any intelligence agencies of any countries, or personnel?

Mr. RAHMAN. No. Nor in any Price Waterhouse report I've seen anything.

Senator KERRY. What can you tell us about the modus operandi of the bank with respect to the courting of public people and the way in which it sought favor in various countries?

Mr. RAHMAN. As far as the Third World countries are concerned, the fact that BCCI represented a Third World bank with extensive network and was successful in their eyes, it was in any case a very good door opener, and Mr. Abedi and Mr. Naqvi, anybody who went was well received.

Senator KERRY. Who were the principal ambassadors, if you will, of this bank?

Mr. RAHMAN. I think Mr. Abedi and Mr. Naqvi were the principal ambassadors. At regional level, perhaps the general managers in the regions.

Senator KERRY. Did they deal almost exclusively in that effort to open those doors?

Mr. RAHMAN. At the highest level, Mr. Abedi did bulk of this, more than Mr. Naqvi even.

Senator KERRY. Do you know what kinds of efforts the bank engaged in any particular country in order to make doors open?

Mr. RAHMAN. Well, obviously where it was Third World, it was easy enough to sell it as a Third World bank which had global network which could help the country.

Also one of the things that Mr. Abedi and the bank started very early is that—he used to say that unless there is a moral balance sheet, then you can't support a material balance sheet. On that plea, we had started a lot of social work, foundation work, charitable work, in many Third World countries. And between these two, it was quite easy for him to open doors in most Third World countries.

When it came to the European-American situation, I think he contacted some influential people, ex-politicians and things, and no doubt used this as a vehicle to enter into these countries.

Senator KERRY. Could you speak up a little bit into the mike there? It is hard to hear your sentences.

Mr. RAHMAN. Yes. I said that as far as European-American situation is concerned, where it wasn't the Third World image that helped, at that stage he did use important influential people as a vehicle to get to know——

Senator KERRY. Well, can you be a little more specific, for instance?

Mr. RAHMAN. Well, through the Third World Foundation and South Magazine and Third World Prize, et cetera, and Carter Foundation and Global 2000 Foundation, there was—various vehicles were there through which he could get important ex-government people, political people, associated. All the away around the world from the Far East all the way through Middle East and into Europe. And these are important names and—in all these countries.

Senator KERRY. Mr. Rahman, did the bank make payoffs?

Mr. RAHMAN. Well, I am reading a lot about that and definitely if ICIC bank was there, then funds must have been available to make payments also—out of the books.

Senator KERRY. But you are making a presumption there. This is a question which deserves——

Mr. RAHMAN. I wouldn't say anything else, but I've read since——

Senator KERRY. You have no personal knowledge?

Mr. RAHMAN. I have no personal knowledge.

Senator KERRY. None whatsoever?

Mr. RAHMAN. The only thing that came through inquiries and others was where in various banks which we established as joint ventures, some of the local shareholders were given loans to buy the shares.

Senator KERRY. Local shareholders were given loans in order to buy the shares?

Mr. RAHMAN. Yes. For their part of the local shares. Yes.

Senator KERRY. And you viewed that—it was viewed as bank policy as a way of doing what?

Mr. RAHMAN. Well, it—first of all, in most cases, the local counterpart shareholders were fairly good big businessmen and influential people. Sometimes they had to subscribe. They couldn't subscribe for the full amount, so some loans were given to these people.

Senator KERRY. Were the loans serviced?

Mr. RAHMAN. Sometimes from dividends, et cetera, if the bank did well. Otherwise it—it wasn't serviced.

Senator KERRY. Often not?

Mr.RAHMAN. Often not.

Senator KERRY. By and large not?

Mr. RAHMAN. There were about four, five such cases I have seen in the course of the investigation. So I would say 50/50.

Senator KERRY. 50/50. So in effect, those loans were gifts and they were just a way of incurring favor?

Mr. RAHMAN. Also to have the right shareholders associated in the local countries.

Senator KERRY. Because that helped the bank to establish itself in the community. By having the right shareholders and the right people, the bank got a foothold of decency in the community. Is that correct?

Mr. RAHMAN. And got good business and all that.

Senator KERRY. And got good business as a result.

Mr. RAHMAN. Yes.

Senator KERRY. And maybe even some protection against scrutiny because good people were involved.

Mr. RAHMAN. Perhaps.

Senator KERRY. Was that talked about?

Mr. RAHMAN. Not in that context. I mean, more in a commercial sense it was useful.

Senator KERRY. So it was conscious.

Mr. RAHMAN. It was conscious.

Senator KERRY. It was conscious.

Mr. RAHMAN. Yes.

Senator KERRY. Now, is there an effort still underway to limit public investigation of this scandal?

Mr. RAHMAN. As I explained, our report is very comprehensive. It names the amounts, people, where, how, and it obviously, by connotation, names that head of credit, head of inspection; Mr. Naqvi and others were named; the trustees; some board members because Price Waterhouse mentioned to me that they had also informed the board members about 2 years ago some of these events and about the bank within the bank.

Senator KERRY. But nothing happened when that happened, did it?

Mr. RAHMAN. But nothing happened. And on the contrary, what surprised me was that the people who were released from the bank after my April report were, if at all, the better executives from India, from other countries. And the core group who were named

in our report—I had suspended three of them—they were reinstated. Plus all the others continued to be in key positions. And——

Senator KERRY. So people who played by the game, played by the rules and kept quiet were rewarded, and people who seemed not to be were threatened?

Mr. RAHMAN. Yes. And they were released very promptly. And not only that, they were not even compensated properly.

Senator KERRY. Do you know whether or not documents have been destroyed?

Mr. RAHMAN. Again, I read in the papers about it. I don't know.

Senator KERRY. Do you personally know whether documents have been destroyed?

Mr. RAHMAN. No.

Senator KERRY. You do not know?

Mr. RAHMAN. I don't know. Right.

Senator KERRY. What was the relationship of BCCI to South Magazine and the Third World Quarterly?

Mr. RAHMAN. As a part of the globalization of BCCI and the Third World image, Mr. Abedi had wanted a media line and a Third World Foundation-type of situation. So he called upon an ex-government official from Pakistan, Mr. Gauher, G-a-u-h-e-r, Gauher, Altaf, A-l-t-a-f, who was an ex-Minister of Information in the government of General Ayub Khan. And he joined Mr. Abedi in trying to set up a magazine called the South Magazine, and the Third World Journal, and also he arranged some of the Third World conferences and so it was no doubt a tremendous publicity for the bank and enhanced the image of the bank. They were funded from the 30 percent shares that went to ICIC Holdings, which was the foundation.

On this aspect, I don't know if we have touched on it, but the 30 percent that went to ICIC came from Bank America shares in 1980. And soon after that it was split into three parts by the trustees.

Senator KERRY. The bank bought back Bank of America shares. Correct?

Mr. RAHMAN. The ICIC Holding, which was the holding company of the staff.

Senator KERRY. Paid for that.

Mr. RAHMAN. Yes. They were paid and they acquired that 30 percent. And part of the loan for buying this was shown up in the ICIC insider bank. So part of the loan was also to ICIC foundation.

Senator KERRY. Now with respect to the findings of your report—and I have just a few more questions. With respect to the findings of your report, were interest payments made in a timely fashion on the loans for the shareholders of First American?

Mr. RAHMAN. No.

Senator KERRY. They were not?

Mr. RAHMAN. No.

Senator KERRY. Were they ever paid?

Mr. RAHMAN. Maybe in the early days. I did not go far back enough to find out.

Senator KERRY. Do you have any knowledge about allegations that Pakistani President Khan's son-in-law was arrested in New York on a BCCI-related drug charge, later released on diplomatic immunity? Do you know about that?

Mr. RAHMAN. No, sir.

Senator KERRY. You have no knowledge at all?

Mr. RAHMAN. No.

Senator KERRY. And is the President of Pakistan the President of the BCCI Foundation or was he?

Mr. RAHMAN. He was at one time.

Senator KERRY. He was? During what period of time?

Mr. RAHMAN. I think 6 or 7 years ago.

Senator KERRY. For 6 or 7 years, or——

Mr. RAHMAN. In the early days.

Senator KERRY. In the early days. Can you be more precise than that?

Mr. RAHMAN. I do not know. Because the Foundation, the Pakistan Foundation must be now about 15 years old. So I do not know which period he was——

Senator KERRY. Now, let me ask you just a sort of few general questions, if I can. Here you are, you do not have a job. You have invested a significant portion of your life in this bank. And you find yourself in the middle of this hurley burley—obviously difficult.

What is your sense, at this point, of this road you have travelled, and of where you are now?

Mr. RAHMAN. I have always believed that if you stay close enough to the truth, and if you stay close enough, then there will be an answer somewhere.

In a personal sense, my family and I have suffered. I just do not know where we will be month-to-month from now. I started a small trading company. First I joined a bank, Meridian Bank for one year, and then I was released from that, also under pressure.

Senator KERRY. But you have appeared voluntarily before Mr. Morgenthau?

Mr. RAHMAN. Yes, I did.

Senator KERRY. You appeared before the grand jury voluntarily?

Mr. RAHMAN. Yes.

Senator KERRY. And you are prepared to cooperate with the United States officials, are you not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. So you have really put yourself at the mercy of people's judgment and of the facts. Is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. Now, how do you feel about Mr. Abedi at this point?

Mr. RAHMAN. No comments. I do not want to think about him anymore. He has destroyed many lives. And it shocks me to think that 14,000 people's lives, employees of different, 83 nationalities are destroyed; 1 million-plus customers' lives have been destroyed. So I feel that it is very sad. And if anything can be done to salvage it, I should do that.

Senator KERRY. This bank, as you know, has come to be known as bank of crooks and criminals. You have obviously now uncovered extraordinary fraud. You have seen it involved in drugs. There are allegations of kickbacks, and payoffs in various countries. Some countries are in great turmoil over their foreign reserve money that has been lost.

Who was enriched here? Where did this money go?

Mr. RAHMAN. Other than Mr. Abedi, Mr. Naqvi, some trustees, some directors, I do not know where it could have gone. But certainly it was not widely scattered. And while the figures are shocking, and I can see people not in banking confused with such large figures. But I assure you that when you see the list of the names that Price Waterhouse has named, we have named, and the list of the clients Price Waterhouse has named, and we have named, it is nowhere near the level that requires destroying a global organization of 14,000, or 1.3 million customers lives. It is nowhere near it.

And somehow, if this is consolidated, and the facts are put correctly around these people, then you will find a limited bit, it was at the very top. And at the very top you do not need many people.

But I personally feel that one of the reasons I volunteered, in all these places—I have been asked this by the Fed, I have been asked this by Morgenthau, and I have said this—is that somebody has to do this. Somebody has to come forward and get the facts.

There is a great deal of speculation. I know the press interest in drugs. I know the press interest in anything which sounds nasty. But there is a whole, big bank working out there. And thousands of good people who are working there from different nationalities, also.

Pakistanis were hardly 200 people out of 14,000. And out of the Pakistanis, there are 20 names over there, all Pakistanis unfortunately. And the clients are all the same clients. The same 15 names you hear about 20 times. What does that prove? I do not think it proves anything except that if anybody could salvage it, if anybody could isolate these problems then one should.

Senator KERRY. Well, we have heard sums of money that have been lost, significantly in excess of the several billions that you have outlined here today. Now you admit by your own statement that you only focused on three areas, correct?

Mr. RAHMAN. Yes.

Senator KERRY. You focused on ICIC. You focused on the Gulf Group, shipping group, and you focused on the first American outstanding.

But beyond that, there is the potential, obviously, that people have learned of other losses, correct? Or that there were other activities?

Mr. RAHMAN. I have been out of touch for more than a year—so unless I see the latest situation. But my reading was that all these individual countries were getting so many levels of audit: both the local audit, the regional audit, the central audit, the Price Waterhouse audit, the regulatory audit—that I cannot visualize—and most of them were in local currency operation anyway—about 50, 55 of them never saw any hard currency. So those cannot be touched. You will again come back to a few countries, and a few locations.

Now the amounts we have listed are primarily Grand Cayman oriented. Primarily, either they are in Grand Cayman books, or they were emanated from Grand Cayman. You take the situation of UK. They had a $4 billion balance sheet, for which only 40 percent was in advances; 60 percent was liquid.

Senator KERRY. 60 percent was liquid?

Mr. RAHMAN. It was liquid funds, and they closed the whole bank. It is unbelievable that the Bank of England should——

Senator KERRY. But did they not close the bank because of the fraud? I mean this was not a decision based exclusively on liquidity, et cetera.

Mr. RAHMAN. Sir, I think that in banking terms, you close the people. You do not close the bank.

Senator KERRY. Well, this is the judgment, obviously, which people are going to have to take a look at.

Mr. RAHMAN. It will come out that even in UK, you will have the same people, the same names coming up again. And not the 2,500 people who work there, or the 300,000 clients who have suffered over there.

Senator KERRY. Let me go back to one thing that you raised earlier that may have piqued some people's curiosity.

Back in 1990, when you discovered these problems, you mentioned to me that a number of large investment houses were contacted regarding the sale of First American shares. Is that accurate?

Mr. RAHMAN. Well, Goldman-Sachs was supposed to try and locate a potential buyer.

Senator KERRY. A potential buyer for?

Mr. RAHMAN. First American.

Senator KERRY. First American—so they were supposed to find a buyer for a bank owned by a foreign bank, selling the American bank which was not legally held at the time, or legally owned by the foreign bank. Is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. Did they know that? Were they notified of that?

Mr. RAHMAN. I think they were asked on behalf of the shareholders.

Senator KERRY. Well, were they told that?

Mr. RAHMAN. No, I think that they were told that it is on behalf of Kamal Adham and other shareholders.

Senator KERRY. That they simply want to sell some shares?

Mr. RAHMAN. Sell, I think maybe sell some shares. I do not know whether the whole bank or some shares.

Senator KERRY. So you do not know what the story is with respect to that?

Mr. RAHMAN. But that is what was informed to the committed.

Senator KERRY. Did BCCI entertain lavishly? Did it spend a lot of money?

Mr. RAHMAN. I would say that considering the size of its operation, it was earning close to $3 billion.

Its expenditure on entertainment was quite small, I should say.

Senator KERRY. It had aircraft, correct?

Mr. RAHMAN. Yes. That was for Mr. Abedi's own use.

Senator KERRY. One aircraft?

Mr. RAHMAN. One aircraft, yes.

Senator KERRY. And what was that aircraft used for?

Mr. RAHMAN. Mr. Abedi used to travel extensively. He needed it.

Senator KERRY. And did he use that aircraft to take major public people places?

Mr. RAHMAN. Yes, sometimes.

Senator KERRY. With respect to—let me just ask this question.

Your wife has been sitting very, very patiently here and putting up with all this. I don't want to put her on the spot at all, but she's been part of this.

If she wants to say anything, I want to afford her the opportunity. [Pause]

Senator KERRY. No. OK, fine.

Well, Mr. Rahman, let me say this to you.

First of all, we're very appreciative of your being here. There are questions yet unanswered. There are questions that are going to remain unanswered in this for some period of time. But clearly your willingness to come forward has been very, very helpful. And I know that other authorities are extremely appreciative of the fact that you have been willing to cooperate and that you are willing to cooperate.

We're interested, as I hope you've been able to tell today, in getting the facts out on the table. And, clearly, some of the facts, as you've described them, don't jibe completely with all of the public accounting and some of the hyperbole and so forth. But I think it's a pretty straightforward indictment of a process of fraud.

Clearly this bank was engaged in a massive fraud, and part of the fraud was on its own employees. I think that's relatively clear.

We still have a lot to learn, and I draw no conclusions about ownership issues and transfers of things until a lot more facts are on the table with respect to those things.

Mr. RAHMAN. I wanted to add, when you mentioned fraud on the people, on the staff, I want to place on the record that the restructuring proposition we made in April was very precise in terms of how to deal with CCAH, how to deal with the ICIC bank, how to deal with Gokals. But the actions since then don't seem to jell in the sense that we do not ever hear what happened to the ICIC shares. They were holding large chunks of the bank. But no people, nobody has asked who owns them. Why has nobody raised any question about their rights.

This is an area which remains unanswered, and I think that somebody should look to find out what happened to those shares.

Senator KERRY. You mean who owns the shares of ICIC?

Mr. RAHMAN. Why 77 percent is talked of every morning, noon, and night, and why not the 23 percent.

Senator KERRY. Which 23 percent?

Mr. RAHMAN. I mean, out of the 100 percent of the group.

Senator KERRY. And that 23 percent is unaccounted for?

Mr. RAHMAN. Well, at least 12 percent of that belongs to the staff and to the people.

Senator KERRY. Is there any record of that?

Mr. RAHMAN. Yes.

Senator KERRY. You, yourself, said you don't have any shares.

Mr. RAHMAN. No. But the filing that was going on as late as April, 1990, indicated that ICIC owned about 11 to 12 percent, even in those days. And the 7.5 percent that was sold for $150 million should have been reinstated, because they got no value for it.

Senator KERRY. Well, I'm sure that's going to be something which is going to be the subject of considerable inquiry and possi-

bly even court action. It's an issue worth pursuing and we will certainly try to do that as we proceed from here.

Again, Mr. Rahman, I want to thank you. I know that you've been uncomfortable throughout these past weeks and this process.

I'm going to leave the record open because there may be some issues that we will want to submit to you still in writing in order to complete some questioning that we began today or to tie up some loose ends. I would obviously appreciate your continued cooperation with respect to that possibility.

Mr. Rahman, I forgot something. This is an important area of inquiry and I'm sorry, but I didn't mean to leave it for last. I'm searching for something here, so we will reconvene for a moment.

Let me just ask you with respect to the question of Ghaith Pharaon and CenTrust and the ownership of CenTrust, did you discover at some point in the course of your inquiry a BCCI relationship to CenTrust?

Mr. RAHMAN. No, sir. It didn't come up in the Price Waterhouse report.

Senator KERRY. Has it come up since then?

Mr. RAHMAN. Only in the context that the loans that are given include some loans for CenTrust.

Senator KERRY. The loans that were given to whom?

Mr. RAHMAN. To Ghaith Pharaon.

Senator KERRY. All right. So loans were made from BCCI to Ghaith Pharaon, and those were presumably for what?

Mr. RAHMAN. They were for his business. They were for Independence Bank. They were for CenTrust. So these were items that were shown as security.

Senator KERRY. Did you know that before the Price Waterhouse report of 1990?

Mr. RAHMAN. No. Only in this report I saw it.

Senator KERRY. So there's no recordation within BCCI itself of any kind of ownership interest of CenTrust?

Mr. RAHMAN. No, sir.

The Credit Division should go through the process of application and, if at all, they would have any details.

Senator KERRY. Now have you been able to learn anything as a consequence of the records you've looked at subsequently that shed any light on a relationship between BCCI and CenTrust?

Mr. RAHMAN. Not in the papers. There are very few papers of Ghaith Pharaon in the file which we saw.

Senator KERRY. So there's nothing that you can say that——

Mr. RAHMAN. Very few. Even letters, authorization letters, and all were not there in many cases.

Senator KERRY. And those loans you're talking about were directly to Ghaith Pharaon, and he undertook whatever he undertook?

Mr. RAHMAN. Yes.

Senator KERRY. But was he formally representing BCCI in that capacity?

Mr. RAHMAN. I don't know.

Senator KERRY. You don't know the answer to that.

What was his official link to BCCI?

Mr. RAHMAN. He had become very close to BCCI. I think Mr. Abedi and Mr. Naqvi was meeting him quite regularly.

Senator KERRY. Was he an officer?

Mr. RAHMAN. No.

Senator KERRY. A shareholder?

Mr. RAHMAN. He used to be a shareholder, and then he offloaded some shares to his own brother, and some shares were transferred to his brother.

Senator KERRY. Was he a trustee?

Mr. RAHMAN. No, he was not.

Senator KERRY. A director?

Mr. RAHMAN. No.

Senator KERRY. No formal relationship that you knew of?

Mr. RAHMAN. No, just a business relationship.

Senator KERRY. Just a business one. Loans.

Mr. RAHMAN. Loans, yes.

Senator KERRY. All right.

Thank you.

We stand adjourned.

[Whereupon, at 3:19 p.m., the subcommittee adjourned, to reconvene at 10:03 a.m., October 18, 1991.]

○


A000019266459

ISBN 0-16-037256-9


90000
9 780160 372568